Annual Financial Statement

of Bank Millennium S.A.

for the 12-month period

ending 31st December 2011

FINANCIAL HIGHLIGHTS

	Amount '000 PLN		Amount '000 EUR	
	period from 1.01.2011 to 31.12.2011	period from 1.01.2010 to 31.12.2010	period from 1.01.2011 to 31.12.2011	period from 1.01.2010 to 31.12.2010
I. Interest income	2 574 691	2 204 316	621 891	550 473
II. Fee and commission income	579 946	568 136	140 080	141 878
III. Operating income	1 774 400	1 586 566	428 589	396 206
IV. Operating profit / (loss)	523 939	389 348	126 552	97 230
V. Profit /(loss) before taxes	523 939	389 348	126 552	97 230
VI. Profit /(loss) after taxes	415 342	321 042	100 322	80 172
VII. Total comprehensive income of the period	565 463	259 587	136 582	64 825
VIII. Net cash flows from operating activities	239 524	(89 068)	57 855	(22 243)
IX. Net cash flows from investing activities	1 481 759	(1 008 237)	357 904	(251 782)
X. Net cash flows from financing activities	(1 337 359)	227 724	(323 026)	56 868
XI. Net cash flows, total	383 924	(869 581)	92 733	(217 156)
XII. Total assets	49 613 277	46 050 065	11 232 856	11 627 923
XIII. Deposits from banks	1 522 406	2 084 456	344 685	526 338
XIV. Deposits from customers	37 549 802	35 525 839	8 501 585	8 970 492
XV. Total equity	4 260 196	3 816 045	964 544	963 575
XVI. Share capital	1 213 117	1 213 117	274 660	306 319
XVII. Number of shares	1 213 116 777	1 213 116 777	1 213 116 777	1 213 116 777
XVIII. Book value per share (in PLN/EUR)	3.51	3.15	0.80	0.79
XIX. Diluted book value per share (in PLN/EUR)	3.51	3.15	0.80	0.79
XX. Capital adequacy ratio	12.43%	13.45%	12.43%	13.45%
XXI. Pledged or paid dividend per share (in PLN/EUR)	0.10	-	0.03	-

RATES USED FOR CONVERSION OF FINANCIAL DATA TO EURO

Following rates were used to calculate values in EURO:

- For balance-sheet items 4.4168 EUR/PLN rate of 31 December 2011 (for comparable data as of 31 December 2010: 3.9603 EUR/PLN),
- For items from the Profit and Loss Account for the period 1 January – 31 December 2011 – 4.1401 EUR/PLN, rate calculated as the average of rates at end of reporting months (for comparable data on the period 1 January – 31 December 2010: 4.0044 EUR/PLN).

QUARTERLY FINANCIAL INFORMATION

INCOME STATEMENT (PLN '000)	1.01.2011 - 31.12.2011	1.10.2011 - 31.12.2011*	1.01.2010 - 31.12.2010	1.10.2010 - 31.12.2010*
I. Interest income	2 574 691	699 622	2 204 316	566 061
II. Interest expense	(1 552 230)	(433 383)	(1 403 943)	(345 264)
III. Net interest income	**1 022 461**	**266 239**	**800 373**	**220 797**
IV. Fee and commission income	579 946	139 506	568 136	145 777
V. Fee and commission expense	(64 276)	(19 959)	(46 045)	(10 958)
VI. Net fee and commission income	**515 670**	**119 547**	**522 091**	**134 819**
VII. Dividend income	13 545	19	20 191	13
VIII. Result on investment financial assets	8 419	5 980	6 372	191
IX. Result on financial instruments valued at fair value through profit and loss and foreign exchange result	185 033	53 875	210 340	71 110
X. Other operating income	29 272	8 710	27 199	6 982
XI. Operating income	**1 774 400**	**454 370**	**1 586 566**	**433 912**
XII. General and administrative expenses	(997 427)	(253 851)	(949 646)	(247 904)
XIII. Impairment losses on financial assets	(150 277)	(36 866)	(146 139)	(29 857)
XIV. Impairment losses on non-financial assets	562	(358)	(2 218)	(2 358)
XV. Depreciation and amortization	(62 325)	(14 443)	(71 716)	(17 197)
XVI. Other operating expenses	(40 994)	(11 285)	(27 499)	(9 439)
XVII. Operating expenses	**(1 250 461)**	**(316 803)**	**(1 197 218)**	**(306 755)**
XVIII. Operating profit / (loss)	**523 939**	**137 567**	**389 348**	**127 157**
XIX. Profit / (loss) before taxes	**523 939**	**137 567**	**389 348**	**127 157**
XX. Corporate income tax	(108 597)	(28 454)	(68 306)	(26 145)
XXI. Profit / (loss) after taxes	**415 342**	**109 113**	**321 042**	**101 012**

TOTAL COMPREHENSIVE INCOME STATEMENT (PLN '000)	1.01.2011 - 31.12.2011	1.10.2011 - 31.12.2011*	1.01.2010 - 31.12.2010	1.10.2010 - 31.12.2010*
PROFIT / (LOSS) AFTER TAXES	**415 342**	**109 113**	**321 042**	**101 012**
OTHER ELEMENTS OF TOTAL COMPREHENSIVE INCOME				
I. Effect of valuation of available for sale debt securities	(13 249)	(2 735)	2 182	(2 144)
II. Effect of valuation of available for sale shares	(2 532)	(5 133)	(2 193)	(501)
III. Hedge accounting	201 115	40 814	(75 859)	(50 608)
IV. Other elements of total comprehensive income before taxes	**185 334**	**32 946**	**(75 870)**	**(53 253)**
V. Corporate income tax on other elements of total comprehensive income	(35 213)	(6 260)	14 415	10 118
VI. Other elements of total comprehensive income after taxes	**150 121**	**26 686**	**(61 455)**	**(43 135)**
VII. TOTAL COMPREHENSIVE INCOME OF THE PERIOD	**565 463**	**135 799**	**259 587**	**57 877**

*** - quarterly financial information has not been audited**

ANNUAL FINANCIAL STATEMENT OF THE BANK MILLENNIUM S.A. FOR THE 12 MONTHS PERIOD ENDING 31 DECEMBER 2011

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I. INCOME STATEMENT

INCOME STATEMENT

Amount '000 PLN	Note	01.01.2011 - 31.12.2011	01.01.2010 - 31.12.2010
Interest income	1	2 574 691	2 204 316
Interest expense	2	(1 552 230)	(1 403 943)
Net interest income		**1 022 461**	**800 373**
Fee and commission income		579 946	568 136
Fee and commission expense		(64 276)	(46 045)
Net fee and commission income	3	**515 670**	**522 091**
Dividend income	4	13 545	20 191
Result on investment financial assets	5	8 419	6 372
Result on financial instruments valued at fair value through profit and loss and foreign exchange result	5	185 033	210 340
Other operating income	6	29 272	27 199
Operating income		**1 774 400**	**1 586 566**
General and administrative expenses	7	(997 427)	(949 646)
Impairment losses on financial assets	8	(150 277)	(146 139)
Impairment losses on non financial assets	9	562	(2 218)
Depreciation and amortization	10	(62 325)	(71 716)
Other operating expenses	11	(40 994)	(27 499)
Operating expenses		**(1 250 461)**	**(1 197 218)**
Profit / (loss) before taxes		**523 939**	**389 348**
Corporate income tax	12	(108 597)	(68 306)
Profit / (loss) after taxes		**415 342**	**321 042**

TOTAL COMPREHENSIVE INCOME STATEMENT	01.01.2011 - 31.12.2011	01.01.2010 - 31.12.2010
Amount '000 PLN		
PROFIT / (LOSS) AFTER TAXES	**415 342**	**321 042**
OTHER ELEMENTS OF TOTAL COMPREHENSIVE INCOME		
I. Effect of valuation of available for sale debt securities	(13 249)	2 182
II. Effect of valuation of available for sale shares	(2 532)	(2 193)
III. Hedge accounting	201 115	(75 859)
IV. Other elements of total comprehensive income before taxes	**185 334**	**(75 870)**
V. Corporate income tax on other elements of total comprehensive income	(35 213)	14 415
VI. Other elements of total comprehensive income after taxes	**150 121**	**(61 455)**
VII. TOTAL COMPREHENSIVE INCOME OF THE PERIOD	**565 463**	**259 587**

II. BALANCE SHEET

ASSETS

Amount '000 PLN	Note	31.12.2011	31.12.2010
Cash, balances with the Central Bank	14	2 017 550	2 050 515
Loans and advances to banks	15	2 660 366	1 485 797
Financial assets valued at fair value through profit and loss (held for trading) and adjustment from fair value hedge	16	729 029	1 429 543
Hedging derivatives	17	130 636	80 231
Loans and advances to customers	18	39 832 055	35 677 997
Investment financial assets	19	3 133 585	4 507 847
- available for sale		3 133 585	4 507 847
- held to maturity		0	0
Investments in associates	19	311 303	312 105
Receivables from securities bought with sell-back clause	20	2 209	55 085
Property, plant and equipment	21	206 525	233 167
Intangible assets	22	31 895	29 798
Non current assets held for sale	23	0	0
Receivables from Tax Office resulting from current tax		86 342	2 952
Deferred income tax assets	24	66 750	102 807
Other assets	25	405 032	82 221
Total Assets		**49 613 277**	**46 050 065**

LIABILITIES

Amount '000 PLN	Note	31.12.2011	31.12.2010
Deposits from banks	26	1 522 406	2 084 456
Financial liabilities valued at fair value through profit and loss	27	574 418	804 965
Hedging derivatives	28	2 298 099	1 315 321
Deposits from customers	29	37 549 802	35 525 839
Liabilities from securities sold with buy-back clause	30	1 622 335	674 194
Debt securities	31	394 775	384 537
Provisions	32	34 970	20 503
Deferred income tax liabilities	33	0	0
Other liabilities	34	693 048	512 217
Subordinated debt	35	663 228	911 988
Total Liabilities		**45 353 081**	**42 234 020**

EQUITY

Amount '000 PLN	Note	31.12.2011	31.12.2010
Share capital	36	1 213 117	1 213 117
Share premium	36	1 147 241	1 147 241
Revaluation reserve	36	99 865	(50 256)
Retained earnings	36	1 799 973	1 505 943
Total Equity		**4 260 196**	**3 816 045**
Total Liabilities and Equity		**49 613 277**	**46 050 065**

III. STATEMENT OF CHANGES IN EQUITY

	Total equity	Share capital	Share premium	Revaluation reserve	Retained earnings
Equity at the beginning of the period 01.01.2011	**3 816 045**	**1 213 117**	**1 147 241**	**(50 256)**	**1 505 943**
- dividend for 2010	(121 312)	0	0	0	(121 312)
- total comprehensive income of 2011	565 463	0	0	150 121	415 342
Equity at the end of the period (closing balance) 31.12.2011	**4 260 196**	**1 213 117**	**1 147 241**	**99 865**	**1 799 973**

	Total equity	Share capital	Share premium	Revaluation reserve	Retained earnings
Equity at the beginning of the period 01.01.2010	**2 517 625**	**849 182**	**472 343**	**11 199**	**1 184 901**
- L-shares issue	1 038 833	363 935	674 898	0	0
- total comprehensive income of 2010	259 587	0	0	(61 455)	321 042
Equity at the end of the period (closing balance) 31.12.2010	**3 816 045**	**1 213 117**	**1 147 241**	**(50 256)**	**1 505 943**

Detailed information concerning changes in different equity items are presented in the ***Note (36)***

IV. CASH FLOWS FROM OPERATING ACTIVITIES

A. CASH FLOWS FROM OPERATING ACTIVITIES

Amount '000 PLN	**1.01.2011 - 31.12.2011**	**1.01.2010 - 31.12.2010**
I. Profit (loss) after taxes	**415 342**	**321 042**
II. Adjustments for:	**(175 818)**	**(410 110)**
1. Interests in net profit/(loss) of associated companies	0	0
2. Depreciation and amortization	62 325	71 716
3. Foreign exchange (gains) /losses	192 780	(75 324)
4. Dividends	(13 545)	(20 191)
5. Changes in provisions	14 467	(2 693)
6. Result on sale and liquidation of investing activity assets	(6 951)	11 536
7. Change in financial assets valued at fair value through profit and loss	834 359	1 881 313
8. Change in loans and advances to banks	(845 215)	(989 238)
9. Change in loans and advances to customers	(4 168 689)	(3 186 146)
10. Change in receivables from securities bought with sell-back clause	52 876	153 696
11. Change in liabilities valued at fair value through profit and loss	752 231	1 314 095
12. Change in liabilities to banks	180 282	(1 997 886)
13. Change in deposits from customers	2 012 265	3 867 878
14. Change in liabilities from securities sold with buy-back clause	948 141	(1 671 996)
15. Change in debt securities	10 238	122 071
16. Change in income tax settlements	33 974	68 307
17. Income tax paid	(119 683)	(20 443)
18. Change in other assets and liabilities	(147 265)	37 011
19. Other	31 592	26 184
III. Net cash flows from operating activities	**239 524**	**(89 068)**

B. CASH FLOWS FROM INVESTING ACTIVITIES

Amount '000 PLN	**1.01.2011 - 31.12.2011**	**1.01.2010 - 31.12.2010**
I. Inflows:	**82 217 639**	**75 270 420**
1. Proceeds from sale of property, plant and equipment and intangible assets	**303**	**4 808**
2. Proceeds from sale of shares in associates	0	20 025
3. Proceeds from sale of financial assets valued at fair value through profit and loss	0	0
4. Proceeds from sale of investment financial assets	82 203 791	75 225 396
5. Other	13 545	20 191
II. Outflows:	**(80 735 880)**	**(76 278 657)**
1. Acquisition of property, plant and equipment and intangible assets	(18 021)	(26 938)
2. Acquisition of shares in associates	0	(70 001)
3. Acquisition of financial assets valued at fair value through profit and loss	0	0
4. Acquisition of investment financial assets	(80 717 859)	(76 181 718)
5. Other	0	0
III. Net cash flows from investing activities	**1 481 759**	**(1 008 237)**

C. CASH FLOWS FROM FINANCING ACTIVITIES

Amount '000 PLN	**1.01.2011 - 31.12.2011**	**1.01.2010 - 31.12.2010**
I. Inflows:	**0**	**1 366 448**
1. Long-term bank loans	0	327 615
2. Issue of debt securities	0	0
3. Increase in subordinated debt	0	0
4. Net proceeds from issues of shares and additional capital paid-in	0	1 038 833
5. Other	0	0
II. Outflows:	**(1 337 359)**	**(1 138 724)**
1. Repayment of long-term bank loans	(787 520)	(1 051 873)
2. Redemption of debt securities	0	0
3. Decrease in subordinated debt	(362 040)	0
4. Issue of shares expenses	0	0
5. Redemption of shares	0	0
6. Dividends paid and other payments to owners	(121 312)	0
7. Other	(66 487)	(86 851)
III. Net cash flows from financing activities	**(1 337 359)**	**227 724**

D. NET CASH FLOWS, TOTAL (A III+B III+C III)	**383 924**	**(869 581)**
E. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE REPORTING PERIOD	**3 258 828**	**4 128 408**
F. CASH AND CASH EQUIVALENTS AT THE END OF THE REPORTING PERIOD (D+E)	**3 642 752**	**3 258 827**

V. GENERAL INFORMATION ON THE ISSUER

Bank Millennium S.A. (the Bank) is a nationwide universal bank, offering its services to all market segments via a network of branches, corporate centers, individual advisors and electronic banking.
The Bank, entered under the number KRS 0000010186 in the National Court Register kept by the Local Court for the Capital City of Warsaw, 13th Business Department of the National Court Register, is seated in Warsaw, ul. Stanisława Żaryna 2A.
The Bank is listed on the Warsaw Stock Exchange since 1992, first Bank ever to float its shares on the WSE.
The Bank is parent company of a Capital Group (the Group) with over 6,300 employees with core business comprising banking, leasing, factoring, brokerage, capital operations, and investment fund management.

Supervisory Board and Management Board of Bank Millennium S.A.

On 30 March 2011 Bank received information on the filing by Mr. Paulo Jose de Ribeiro Moita de Macedo of the resignation from the membership of Supervisory Board of Bank Millennium effective as of 31 March 2011.

Ordinary General Meeting of Shareholders of the Bank on 31 March 2011 elected Mr. António Manuel Palma Ramalho to the membership of the Bank Supervisory Board of the current term of office.

Composition of the Supervisory Board of the Bank Millennium S.A. ('Bank') being parent company for Bank Millennium Group ('Group') as at 31 December 2011 was as follows:

1. Maciej Bednarkiewicz – Chairman of the Supervisory Board,
2. Ryszard Pospieszyński – Deputy Chairman of the Supervisory Board,
3. Carlos Jorge Ramalho dos Santos Ferreira – Deputy Chairman of the Supervisory Board,
4. Marek Furtek – Secretary of the Supervisory Board,
5. Luis Maria Franca de Castro Pereira Coutinho – Supervisory Board Member,
6. Vitor Manuel Lopes Fernandes – Supervisory Board Member,
7. Andrzej Koźmiński – Supervisory Board Member,
8. António Manuel Palma Ramalho – Supervisory Board Member,
9. Nelson Ricardo Bessa Machado – Supervisory Board Member,
10. Marek Rocki – Supervisory Board Member,
11. Dariusz Rosati – Supervisory Board Member

The Supervisory Board of the Bank, at its meeting on 22 July 2011, accepted the resignation - effective as of 22 July 2011 - of Mr. Antonio Pinto Junior from the function of Member of the Bank's Management Board, for personal reasons. Moreover, the Supervisory Board changed the composition of the Management Board of the current term in office appointing Ms. Maria Jose Campos for the post of Bank's Management Board Member.

Composition of the Management Board of the Bank Millennium S.A. as at 31 December 2011 was as follows:

1. Bogusław Kott – Chairman of the Management Board,
2. Joao Bras Jorge – Deputy Chairman of the Management Board,
3. Fernando Bicho – Member of the Management Board,
4. Julianna Boniuk-Gorzelańczyk – Member of the Management Board,
5. Maria Jose Campos – Member of the Management Board,
6. Andrzej Gliński - Member of the Management Board,
7. Wojciech Haase – Member of the Management Board,
8. Artur Klimczak – Member of the Management Board.

VI. ACCOUNTING POLICY

(1) STATEMENT OF COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

These financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ('IFRS'), as adopted by the European Union and with respect to matters not regulated by the above standards, in accordance with the accounting principles as set out in the Accounting Act dated 29 September 1994 (Official Journal from 2002, No. 76, item 694 with amendments) and the respective bylaws and regulations and the requirements for issuers of securities admitted or sought to be admitted to trading on an official stock-exchange listing market. This financial statement meets the reporting requirements described in the Decree of the Council of Ministers dated 19 October 2005 on current and periodical information provided by issuers of securities (Official Journal from 2005, item 209).

This financial report was approved for publication by the Management Board on 28 February 2012.

EARLIER ADOPTION OF STANDARDS WHICH ARE NOT IN FORCE AS AT THE BALANCE SHEET DATE

The Bank did not use the possibility of an earlier adoption of the new Standards and Interpretations, which have already been published and which will enter into force after the balance sheet day, including:

Standards and Interpretations endorsed by the European Union that are not yet effective

Standard/Interpretation	**Nature of impending change in accounting policy**	**Possible impact on financial statements**	**Effective date for periods beginning as the date or after that date**
Amendments to IFRS 7 *Financial Instruments: Disclosures* - Transfers of Financial Assets	The Amendments require disclosure of information that enables users of financial statements: • to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities; and • to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognised financial assets. The Amendments define "continuing involvement" for the purposes of applying the disclosure requirements.	The Group does not expect the amendments to IFRS 7 to have material impact on the financial statements, because of the nature of the Group's operations and the types of financial assets that it holds.	1 July 2011

Standards and interpretations not yet endorsed by the EU

Standard/Interpretation	**Nature of impending change in accounting policy**	**Possible impact on financial statements**	**Effective date for periods beginning as the date or after that date**
Amendments to IFRS 1 *Severe Hyperinflation and Removal of Fixed Dates for First – time Adopters*	The Amendments add an exemption to IFRS 1 that an entity can apply at the date of transition to IFRSs after being subject to severe hyperinflation. This exemption allows an entity to measure assets and liabilities held before the functional currency normalization date at fair value and use that fair value as the deemed cost of those assets and liabilities in the opening IFRS statement of financial position.	The amendment has no impact on the Group's Financial Statements.	1 July 2011
Amendments to IFRS 7 *Financial Instruments: Disclosures* - Offsetting Financial Assets and Financial Liabilities	The Amendments contain new disclosure requirements for financial assets and liabilities that are: • offset in the statement of financial position; or • subject to master netting arrangements or similar agreements.	The Group does not expect the Amendments to have significant impact on the financial statements since it generally does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements.	1 January 2013
IFRS 9 *Financial Instruments (2009)*	This Standard replaces the guidance in IAS 39, *Financial Instruments: Recognition and Measurement*, about classification and measurement of financial assets. The Standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivable. Financial assets will be classified into one of two categories on initial recognition: • financial assets measured at amortized cost; or • financial assets measured at fair value. A financial asset is measured at amortized cost if the following two conditions are met: • the assets is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and,	It is expected that the new Standard, when initially applied, will have an impact on the financial statements. However, the Group has not yet prepared a complex analysis of the impact.	1 January 2015

Standard/Interpretation	Nature of impending change in accounting policy	Possible impact on financial statements	Effective date for periods beginning as the date or after that date
	• its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. Gains and losses on remeasurement of financial assets measured at fair value are recognised in profit or loss, except that for an investment in an equity instrument which is not held for trading, IFRS 9 provides, on initial recognition, an irrevocable election to present all fair value changes from the investment in other comprehensive income (OCI). The election is available on an individual share-by-share basis. No amount recognised in OCI is ever reclassified to profit or loss at a later date.		
Additions to IFRS 9 *Financial Instruments (2010)*	The 2010 additions to IFRS 9 replace the guidance in IAS 39 *Financial Instruments: Recognition and Measurement*, about classification and measurement of financial liabilities and the derecognition of financial assets and financial liabilities. The Standard retains almost all of the existing requirements from IAS 39 on the classification and measurement of financial liabilities and for derecognition of financial assets and financial liabilities. The Standard requires that the amount of change in fair value attributable to changes in the credit risk of a financial liability designated at initial recognition as fair value through profit or loss, be presented in other comprehensive income (OCI), with only the remaining amount of the total gain or loss included in profit or loss. However, if this requirement creates or enlarges an accounting mismatch in profit or loss, then the whole fair value change is presented in profit or loss. Amounts presented in OCI are not subsequently reclassified to profit or loss but may be transferred within equity. Derivative financial liabilities that are linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured, are required to be measured at fair value under IFRS 9.	It is expected that the new Standard, when initially applied, will have an impact on the financial statements. However, the Group has not yet prepared a complex analysis of the impact.	1 January 2015

Standard/Interpretation	Nature of impending change in accounting policy	Possible impact on financial statements	Effective date for periods beginning as the date or after that date
Amendments to IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures*	These Amendments change the disclosure and restatement requirements relating to the initial application of IFRS 9 *Financial Instruments* (2009) and IFRS 9 (2010). The amended IFRS 7 requires to disclose more details about the effect of the initial application of IFRS 9 when an entity does not restate comparative information in accordance with the amended requirements of IFRS 9. If an entity adopts IFRS 9 on or after 1 January 2013, then it will no longer be required to restate comparative information for periods prior to the date of initial application. If an entity early adopts IFRS 9 in 2012, then it has a choice either to restate comparative information or to provide the enhanced disclosures as required by the amended IFRS 7. If an entity early adopts IFRS 9 prior to 2012, then neither restatement of comparative information nor provision of the enhanced disclosures under the amended IFRS 7 are required.	It is expected that the new Standard, when initially applied, will have an impact on the financial statements, since the classification and the measurement of the Group's financial assets are expected to change and its effect will be required to be disclosed in the Group's financial statements.	1 January 2015
IFRS 10 *Consolidated Financial Statements*" and IAS 27 (2011) *Separate Financial Statements*	IFRS 10 provides a new single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. IFRS 10 introduces new requirements to assess control that are different from the existing requirements in IAS 27 (2008). Under the new single control model, an investor controls an investee when (1) it is exposed or has rights to variable returns from its involvements with the investee, (2) has the ability to affect those returns through its power over that investee and (3) there is a link between power and returns. The new standard also includes the disclosure requirements and the requirements relating to the preparation of consolidated financial statements. These requirements are carried forward from IAS 27 (2008).	The Group does not expect the new standard to have any impact on the financial statements, since the assessment of control over its current investees under the new standard is not expected to change previous conclusions regarding the Group's control over its investees.	1 January 2013

Standard/Interpretation	Nature of impending change in accounting policy	Possible impact on financial statements	Effective date for periods beginning as the date or after that date
IFRS 11 *Joint Arrangements*	IFRS 11, *Joint Arrangements*, supersedes and replaces IAS 31, *Interest in Joint Ventures*. IFRS 11 does not introduce substantive changes to the overall definition of an arrangement subject to joint control, although the definition of control, and therefore indirectly of joint control, has changed due to IFRS 10. Under the new Standard, joint arrangements are divided into two types, each having its own accounting model defined as follows: - a joint operation is one whereby the jointly controlling parties, known as the joint operators, have rights to the assets, and obligations for the liabilities, relating to the arrangement. - a joint venture is one whereby the jointly controlling parties, known as joint venturers, have rights to the net assets of the arrangement. IFRS 11 effectively carves out, from IAS 31, those cases in which although there is a separate vehicle for the joint arrangement, that separation is ineffective in certain ways. These arrangements are treated similarly to jointly controlled assets/operations, under IAS 31, and are now called joint operations. The remainder of IAS 31 jointly controlled entities, now called joint ventures, must be accounted for using the equity method. Proportionate consolidation is no longer possible.	The Group does not expect IFRS 11 to have material impact on the financial statements since it is not a party to any joint arrangements.	1 January 2013
IFRS 12 *Disclosure of Interests in Other Entities*	IFRS 12 requires additional disclosures relating to significant judgements and assumptions made in determining the nature of interests in an entity or arrangement, interests in subsidiaries, joint arrangements and associates and unconsolidated structured entities.	The Group does not expect IFRS 12 to have material impact on the financial statements.	1 January 2013

Standard/Interpretation	Nature of impending change in accounting policy	Possible impact on financial statements	Effective date for periods beginning as the date or after that date
IFRS 13 *Fair Value Measurement*	IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains 'how' to measure fair value when it is required or permitted by other IFRSs. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The standard contains an extensive disclosure framework that provides additional disclosures to existing requirements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs, the effect of the measurements on profit or loss or other comprehensive income.	The Group does not expect IFRS 13 to have material impact on the financial statements since the entity considers the methods and assumptions currently used to measure the fair value of assets to be consistent with IFRS 13.	1 January 2013
Amendments to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*	The amendments: • require that an entity presents separately the items of OCI that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. If items of OCI are presented before related tax effects then the aggregated tax amount should be allocated between these sections. • Change the title of the *Statement of Comprehensive Income* to *Statement of Profit or Loss and Other Comprehensive Income*, however, other titles are also allowed to be used.	The impact of the application of the amendments will depend on the specific items of other comprehensive income at the date of application.	1 July 2012

Standard/Interpretation	Nature of impending change in accounting policy	Possible impact on financial statements	Effective date for periods beginning as the date or after that date
Amendments to IAS 12 *Income taxes - Deferred Tax: Recovery of Underlying Assets*	The 2010 amendment introduces an exception to the current measurement principles based on the manner of recovery in paragraph 52 of IAS 12 for investment property measured using the fair value model in accordance with IAS 40 by introducing a rebuttable presumption that the carrying value of underlying assets would be recovered entirely by sale. Management's intention would not be relevant unless the investment property is *depreciable* and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. This is the only instance in which the presumption can be rebutted.	The amendments are not relevant to the Group's financial statements, since the Group does not have any investment properties measured using the fair value model in IAS 40.	1 January 2012
IAS 19 (2011) *Employee Benefits*	The amendment requires actuarial gains and losses to be recognised immediately in other comprehensive income. The amendment removes the corridor method previously applicable to recognising actuarial gains and losses, and eliminates the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under the requirements of IAS 19. The amendment also requires the expected return on plan assets recognised in profit or loss to be calculated based on the rate used to discount the defined benefit obligation.	The amendments are not relevant to the entity's financial statements, since the Group does not have any defined benefit plans.	1 January 2013
IAS 27 (2011) *Separate Financial Statements*	IAS 27 (2011) carries forward the existing accounting and disclosure requirements of IAS 27 (2008) for separate financial statements with some minor clarifications. As well, the existing requirements of IAS 28 (2008) and IAS 31 for separate financial statements have been incorporated into IAS 27 (2011). The Standard no longer addresses the principle of control and requirements relating to the preparation of consolidated financial statements, which have been carried over into IFRS 10 Consolidated Financial Statements.	The Group does not expect IAS 27 (2011) to have material impact on the financial statements, since it does not results in a change in accounting policy.	1 January 2013

Standard/Interpretation	Nature of impending change in accounting policy	Possible impact on financial statements	Effective date for periods beginning as the date or after that date
IAS 28 (2011) *Investments in Associates and Joint Venutres*	There are limited amendments made to IAS 28: • *Associates and joint ventures held for sale.* IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. For any retained portion of the investment that has not been classified as held for sale, the equity method is applied until disposal of the portion held for sale. After disposal, any retained interest is accounted for using the equity method if the retained interest continues to be an associate or a joint venture. • *Changes in interests held in associates and joint ventures*. Previously, IAS 28 (2008) and IAS 31 specified that the cessation of significant influence or joint control triggered remeasurement of any retained stake in all cases, even if significant influence was succeeded by joint control. IAS 28 (2011) now requires that in such scenarios the retained interest in the investment is not remeasured.	The Group does not expect the amendments to Standard to have material impact on the financial statements since it does not have any investments in associates or joint ventures that will be impacted by the amendments.	1 January 2013
Amendments to IAS 32 Financial Instruments: Presentation- Offsetting Financial Assets and Financial Liabilities	The Amendments do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The Amendments clarify that an entity currently has a legally enforceable right to set-off if that right is: • not contingent on a future event; and • enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.	The Group does not expect the Amendments to have significant impact on the financial statements since in practice it generally does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements.	1 January 2014

Standard/Interpretation	Nature of impending change in accounting policy	Possible impact on financial statements	Effective date for periods beginning as the date or after that date
IFRIC Interpretation 20: *Stripping Costs in the Production Phase of a Surface Mine*	The Interpretation sets out requirements relating to the recognition of production stripping costs, initial and subsequent measurement of stripping activity assets. To the extent that benefits from production stripping are realised in the form of inventory produced, the related production stripping costs are accounted for in accordance with IAS 2 *Inventories*. Production stripping costs that improve access to ore to be mined in the future are recognised as a non-current asset if, and only if, all of the following criteria are met: • it is probable that future economic benefits will flow to the entity; • the entity can identify the component of the ore body for which access has been improved; and • the costs relating to the stripping activity associated with that component can be measured reliably. The stripping activity asset shall be accounted for as an addition to, or as an enhancement of, an existing asset. The stripping activity asset shall initially be recognised at cost while after initial recognition, it shall be carried at either its cost or its revalued amount, less depreciation or amortisation and impairment losses, in the same way as the existing asset of which it is a part. The Interpretation also requires that when the costs of the stripping activity asset and of the inventory produced are not separately identifiable, the entity allocates production stripping costs between the two based on a 'relevant' production measure.	The Group does not expect the Interpretation to have any impact on the financial statements since it does not have any stripping activities.	1 January 2013

(2) ADOPTED ACCOUNTING STANDARDS

1. Basis of Financial Statements Preparation

These financial statement are prepared on the basis of the assumption of business continuity by the Bank, namely scale of business is not to be reduced substantially, in a period of not less than one year from the balance sheet date.

The financial statements have been prepared in PLN, and all values, unless otherwise indicated, are given in PLN rounded to one thousand.

The financial statements, have been prepared based on the fair value principle for financial assets and liabilities recognised at fair value through profit and loss account including derivative instruments, and financial assets classified as available for sale, other than those whose fair value cannot be reliably determined. Other items of financial assets and liabilities (including loans and advances) are presented at amortized cost less impairment charges, or at their purchase price less impairment charges.

The preparation of financial statements in accordance with IFRS requires from the Bank the use of estimates and assumptions that affect the amounts reported in the financial statements and notes thereto. The respective unit of the Bank is responsible for selection, application, development, and verification of adopted estimations; the assumptions are then subject to approval by the Bank management.

Estimations and assumptions applied to the presentation of value of assets, liabilities, revenues and costs, are made on basis of historical data available and other factors considered to be relevant in given circumstances. Applied assumptions related to the future and available data sources are the base for making estimations regarding carrying value of assets and liabilities, which cannot be determined explicitly on basis of other sources. The actual results may differ from those estimates.

The conformity between real results and adopted estimations and assumptions is verified on regular basis. Adjustments to estimates are recognized in the period when the estimation was changed, provided that the adjustment applies to this period alone, or in the period when the estimation was changed and in the following periods, should the adjustment impact both the current and future periods.

The below-presented accounting principles have been applied to all reporting periods presented in the non-consolidated financial statements.

2. Functional and presentation currency

Functional and presentation currency

Items included in the financial statement are priced in the currency of the basic business environment in which a given entity operates („functional currency"). The Bank's financial statement is presented in PLN which is the Bank's functional and presentation currency.

Transactions and balances

Transactions expressed in foreign currency are translated into the functional currency by applying the exchange rate at the date of the transaction. Exchange rate profits and losses due to settlements of these transactions and to the balance sheet valuation of assets and monetary commitments expressed in foreign currency are accounted for in the profit and loss account.

Exchange rate differences on monetary items, both those valued at fair value through the profit and loss account or classified as available for sale or held to maturity are disclosed in the profit and loss account.

Exchange rate differences on non monetary items valued at fair value through the profit and loss, are accounted in the profit and loss account. Exchange rate differences due to items, such as equity instruments classified to financial assets available for sale, are included in the revaluation reserve.

3. Financial assets and liabilities

Classification

The Bank classifies financial instruments (as defined in IAS 39) into the following categories: financial assets and liabilities valued at fair value through profit and loss, investments held to maturity, loans and receivables, financial assets available for sale, other financial liabilities. The classification of investments is determined by the related individuals at the time of their initial recognition.

- *Financial instruments valued at fair value through the profit and loss*

These are financial assets or financial liabilities that are either held for trading (those that acquired or incurred principally for the purpose of selling it in the near term or are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking). Derivatives are also classified as held for trading, other than those that are designated as effective hedging instruments or those that were designated as at fair value through profit and loss.

Such designation can be made only if (i) the designated financial asset or financial liability is a hybrid instrument containing one or many embedded derivatives, which qualify for separate recognition and embedded derivatives cannot change significantly the cash flows resulting from the host contract or separation of embedded derivative is forbidden; (ii) usage of such classification of financial asset or liability eliminates or decreases significantly the inconsistency of measurement or recognition (so called accounting difference due to various methods of assets and liabilities valuation or various recognition of gains and losses attributable to them); (iii) the group of financial assets and liabilities or both categories is managed properly, and its results are measured using fair value, in accordance with documented risk management principles or the Bank's investment strategy.

- *Held to maturity investments*

These are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity other than: (1) those that the Bank upon initial recognition designates as at fair value through profit or loss; (2) those that the entity designates as available for sale; and (3) those that meet the definition of loans and receivables. Held to maturity investments cannot be reclassified to other category. The Bank cannot classify any financial assets as held to maturity during two financial years (any remaining held to maturity investments have to be reclassified as available for sale), if the Bank, during the current financial year, sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity. This does not apply if the sale or reclassification described above took place, so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on the financial asset's fair value; the event occurs after the Bank has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or the event is result of an isolated event that is beyond the Bank's control, is nonrecurring and could not have been reasonably anticipated by the Bank.

- *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: 1) those that are designated as at fair value through profit or loss; 2) those that the entity upon initial recognition designates as available for sale 3) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

- *Financial assets available for sale*

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments or financial assets valued at fair value through profit or loss and are not capital investment in subsidiaries and associates.

- *Other financial liabilities*

The Bank classifies as other financial liabilities any financial liabilities not included in the category of financial instruments priced at fair value through the income statement, including in particular deposits taken and advances received.

Recognition of financial instruments in the balance sheet

The Bank recognizes financial assets or liabilities on the balance sheet when, and only when it becomes a party to the contractual provisions of the instrument. Standardised purchase and sale transactions of financial assets are recognized at the transaction date .
All financial assets at the moment of initial recognition are recognized at fair value adjusted, in the case of a financial asset not valued at fair value through profit and loss, by transaction costs that are directly attributable to the acquisition or issue of the financial asset.

Derecognition of financial instruments from the balance sheet

The Bank derecognizes a financial asset when and only when: the contractual rights to the cash flows from the financial asset expire, or the Bank transfers the financial asset to third party. The transfer takes place when the Bank 1) transfers the contractual right to receive the cash flows from the financial asset, or 2) retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to an entity from outside the Bank. On transferring a financial asset, the Bank evaluates the extent to which it retains the risks and rewards of ownership of the financial asset. Accordingly, where the Bank:

- transfers substantially all the risks and rewards of ownership of the financial asset, it derecognises the financial asset,
- retains substantially all the risks and rewards of ownership of the financial asset, it continues to recognise the financial asset,
- neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, it determines whether it has retained control of the financial asset. In this case if the Bank has retained control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset, and if the Bank has not retained control, it derecognises the financial asset accordingly,

the Bank removes a financial liability (or a part of a financial liability) from its balance sheet when, and only when, it is extinguished—i.e. when the obligation specified in the contract is discharged or cancelled or expired.

Valuation of financial instruments after the initial recognition in the balance sheet

After the initial recognition, financial instruments are valued as follows:

- *Financial instruments valued at fair value through the profit and loss*
  The instruments are valued at fair value, and any changes are recognized directly in the profit and loss of the Bank.
- *Held to maturity investments and loans and receivables*
  This category is valued at amortized cost using effective interest rate less any impairment. Impairment is recognised in the profit and loss account.

- *Financial asset available for sale*

  Financial assets classified as available for sale are measured at fair value. Gains and losses arising from changes in the fair value of available for sale financial assets are recognized directly in equity until the derecognition of the respective financial asset in the balance sheet or until its impairment: at such time the aggregate net gain or loss is recognised in the profit and loss.

  Interests calculated using the effective interest rate is recognized in interest income.

  If there are objective triggers that such asset has become impaired, then the Bank recognises the revaluation charge in the manner described in item **6 Impairment of Financial Assets**.

- *Other financial liabilities*

  Financial instruments classified as other financial liabilities are valued at amortized cost using the effective interest rate.

In the first place the measurement at fair value is based on prices quoted for a given instrument on the active market. If the valued instrument is not quoted on an active market, the Bank determines the fair value using valuation techniques. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of other instruments, discounted cash flow analysis and option pricing models, as well as other valuation methods generally applied by market participants.

4. Capital investments in subsidiary and associated entities

Subsidiary entities

Subsidiary entities are any entities (including SPVs) controlled by the Bank (the Group's parent company), which means that the Bank directly or indirectly influences the financial and operational policy of a given entity in order to achieve economic advantages. When assessing if the Group controls a given entity what is taken into account is among others the existence and impact of potential voting rights which at a given moment can be exercised or exchanged.

You can also speak of exercising control, if the parent company has a half or less of the voting rights in a given business unit and if:

a) it has more than a half of the voting rights under an agreement with other investors,

b) it has the ability to govern the financial and operational policy of the business entity under articles of association or agreement,

c) it has the ability to appoint or recall a majority of members of the Management Board or an equivalent body, where such Management Board or body exercises control over the entity, or

d) it has a majority of votes at meetings of the Management Board or an equivalent body, where such Management Board or body exercises control over the entity.

Associated entities

Associated entities are any entities which the Bank has a considerable influence upon but which are not controlled by it - this is usually accompanied by holding 20% to 50% of the total number of votes in the decision-making bodies. A considerable influence is defined as the right to participate in decision-making about the operational and financial policy of the business entity, provided it does not consist in exercising control or joint control over the such entity's policy.

Investments in subsidiary and associated entities are recognised at cost of purchase (under IAS 27) less potential impairment charges calculated according to IAS 36 and recognised in the income statement. The payout of a dividend is not reflected in the on-balance value of the investment, it impacts solely the income statement and is included under „dividend income".

5. Hedge Accounting and Financial Derivatives

Valuation at fair value

Derivative instruments are reported at fair value starting from the day of conclusion of the transaction. Fair value is determined on the basis of quotations of instruments on active markets, including pricing of recently concluded transactions. A market is considered active when the quoted instrument prices are regularly available and result from actual transactions on the market and represent a level, at which the Bank could conclude such transactions. If the market for the instruments is not active the Bank determines fair value with use of measurement techniques, including models based on discounted cash flows and options measurement models. The measurement techniques used by the Bank are based on maximum use of input data coming from the active market, such as interest rates, FX rates and implied volatilities. In case of lack of input data from the active market the Bank makes use in the measurement techniques of proprietary estimates of measurement parameters, based on best knowledge and experience.

Recognition of embedded derivative instruments

The Bank distinguishes and records in the balance sheet the derivatives which are a component of hybrid instruments. A hybrid agreement contains an underlying (host) contract (not being a derivative) and an embedded derivative which on the basis of a specific interest rate, price of financial instrument, price of a commodity, rate of a currency, index of prices or rates or another variable modifies part or the total of the cash flows resulting from the underlying contract.

Embedded derivative instruments are treated as stand alone derivative instruments provided they meet conditions presented below. Embedded derivative instruments are valued at fair value, and their changes are recognized in the profit and loss. Embedded derivative instruments are recognized and valued separately from the host contract if, and only if:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract,
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in profit or loss.

The method of recognizing the resulting fair value gain or loss depends on whether the given derivative instrument is designated as a hedging instrument, and if it is, it also depends on the nature of the hedging relationship and the hedged item.

Derivative instruments designated as hedging instruments – hedge accounting

The Bank uses derivative instruments in order to hedge against interest rate risk and FX risk, arising from operating, financing and investing activities of the Bank. Derivative instruments are designated as a hedging instrument of:

- ✓ cash flows hedges of recognized asset or liability or highly probable forecasted transaction (cash flow hedges), or:
- ✓ fair value hedges of recognized asset or liability or firm commitment (fair value hedges).

Hedge accounting criteria

The Bank uses hedge accounting, if the conditions established in IAS 39 are met:

- ✓ At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Bank's risk management objective and strategy for undertaking the hedge. That documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged. It documents also, at the inception of the hedge and thorough the period of hedge relationship, the assessment of the hedging instrument's effectiveness in offsetting the exposure to changes in fair value or cash flows of the hedged item.
- ✓ The Bank anticipates that the hedge will be highly effective in balancing cash flows and changes in fair value in accordance with the documented risk management strategy pertaining to this particular hedge combination;
- ✓ The hedging of cash flows covers a highly probable forecasted transaction exposed to the risk of changing cash flows impacting the level of earnings;
- ✓ The effectiveness of a hedge can be reliably assessed, i.e. one can credibly assess the fair value of the hedged position or cash flows originating from such position and the fair value of the hedging instrument;
- ✓ The hedge is verified on an on-going basis and it is found to be very effective throughout the period of its utilisation.

Hedging cash flows

The hedging of cash flows consists in hedging against the risk of cash flow fluctuations which (i) can be attributed to a specific risk connected with a given asset or liability (such as all or part of future interest payments on floating interest rate debt) or with a highly probable planned transaction and which (ii) can affect the income statement.

A cash flow hedge is treated in the following manner: part of the profits or losses attributed to a hedging instrument which is an effective hedge are recorded directly in equity through other total comprehensive income, while the ineffective part of the profits or losses attributed to the hedging instrument is recorded in the income statement.

The profits and losses recorded in equity (effective hedge), at the moment of recording a financial asset or liability resulting from the planned hedged transaction are transferred to the income statement in such period or periods in which the hedged asset or liability affects the income statement.

In case of hedging non-financial assets or liabilities related to equity as an effective hedge, the profits and losses are referred to the P & L gradually, in periods in which the asset or liability has an impact on the income statement (e.g. in the form of depreciation) or on a one-off basis in the form of adjusting the initial cost of purchase or the on-balance value of the hedged position.

Hedging fair value

The hedging of fair value consists in hedging against the risk of changing fair value of a given asset or liability or future liability whose likelihood is justified, which can be attributed to a specific risk and which can impact the income statement.

Changes in the fair value of derivative instruments assigned and qualifying as fair value hedge are put through the income statement along with the corresponding changes in the fair value of the hedged asset or liability relating to the risk which the Bank hedges against.

The profits and losses resulting from the revaluation of the fair value of a hedging instrument (for a derivative hedging instrument) are disclosed in the income statement, while the profits or losses associated with the hedged position resulting from the hedged risk adjust the on-balance value of the hedged position and are recorded in the income statement. This principle applies to a hedged position which in other circumstances is valued at depreciated cost. If the hedged position is a financial asset available for sale, the profits or losses resulting from the hedged risk are recorded in the income statement until disposing or maturity date of such asset.

Discontinuing hedge accounting

If the fair value hedge no longer meets the criteria for applying hedge accounting, the carrying value adjustment of the hedged instrument valued at effective interest rate is settled over time in the income statement in the period remaining to maturity. The valuation of hedged financial assets classified as available for sale resulting from other factors than hedged risks is presented under revaluation reserve until disposing or maturity date of such asset.

If the cash flow hedge no longer meets the criteria for hedge accounting, the valuation of hedging instrument recognized directly in equity at the date of the last effectiveness test remains in equity until the realization of cash flow resulting from the hedged item. Then the amount is transferred into profit and loss account in the periods, in which the hedged transaction influences the profit and loss account.

Derivative instruments not qualifying as hedging instruments

Derivative instruments that are not subject to hedge accounting principles are classified as instruments for trading, and valued at fair value The changes in fair value of derivative instruments that do not meet hedge accounting criteria are recognized in the profit and loss for the current period in item ‘Result on financial instruments valued at fair value through profit and loss and foreign exchange result’ of the Income Statement.

The Bank uses the following principles of recognition of gain and losses resulting from the valuation of derivative instruments:

1) *FX forward*

   Forward transactions are valued at fair value on discounted future cash flows basis. Any changes in fair value of FX forward transactions are recorded in ‘Result on financial instruments valued at fair value through profit and loss and foreign exchange result’ of the Profit and Loss Account.

   Moreover the Bank designated selected FX forward transactions as hedging instruments. The method of capturing and valuating hedging financial instruments was described in the part on hedge accounting.

2) *FX SWAP*

   FX SWAP transactions are measured at fair value based on the discounted future cash-flow method with use of interest rate curves based on spread reflecting current market conditions. Changes of fair value of FX SWAP transactions are reported in ‘Result on financial instruments valued at fair value through profit and loss and foreign exchange result’ in the Profit and Loss Account.

   Moreover the Bank designated selected FX SWAP transactions as hedging instruments. The method of capturing and valuating hedging financial instruments was described in the part on hedge accounting.

3) *Interest Rate SWAP (IRS)*

IRS transactions are valued at fair value on discounted future cash flows basis. Any changes in fair value of IRS transactions are recorded in 'Result on financial instruments valued at fair value through profit and loss and foreign exchange result' of the Profit and Loss Account.

Moreover the Bank designated selected IRS transactions as hedging instruments. The method of capturing and valuating hedging financial instruments was described in the part on hedge accounting.

4) *Cross – Currency Swap (CCS)*

CCS transactions are measured at fair value based on the discounted future cash-flows method with use of interest rate curves adjusted with market spread reflecting its term structure. Changes of fair value of CCS transactions are reported in 'Result on financial instruments valued at fair value through profit and loss and foreign exchange result'.

Moreover the Bank designated selected CCS transactions as hedging instruments. The method of recognition and measurement of hedging instruments was described in the part devoted to hedge accounting.

5) *IRS transactions with embedded options*

The transactions are valued at fair value: the swap component is valued with use of the future cash flows discounting method, while the option component is valued with use of the option valuation models. The swap transactions are valued at fair value on discounted future cash flows basis. Any changes in fair value of the above transactions are recorded in 'Result on financial instruments valued at fair value through profit and loss and foreign exchange result' of the Profit and Loss Account. The option component hedges options embedded in securities or deposits offered by the Bank.

6) *FX options*

Option transactions are measured at fair value with use of option measurement models. In case of options issued by the Bank's counterparties, the model measurement is supplemented with impact on fair value of the estimated credit risk parameter. Changes of fair value of FX options are reported in 'Result on financial instruments valued at fair value through profit and loss and foreign exchange result' line of the Profit and Loss Account.

7) *Forward Rate Agreement (FRA)*

FRA transactions are valued at fair value on discounted future cash flows basis. Any changes in fair value of FRA transactions are recorded in 'Result on financial instruments valued at fair value through profit and loss and foreign exchange result' of the Profit and Loss Account.

8) *Commodity futures*

Commodity futures are measured at fair value based on the discounted future cash flow methodology, using reference prices set at the LME reference market (London Metal Exchange), whereas the Bank does not keep own positions on the commodities market. Changes of fair value are reported in 'Result on financial instruments valued at fair value through profit and loss and foreign exchange result' of the Profit and Loss Account.

9) *Commodity options*

Commodity options are measured at fair value with use of option valuation models as well as reference prices set at the LME reference market (London Metal Exchange), whereas the Bank does not keep own positions on the commodities market. Changes of fair value are reported in 'Result on financial instruments valued at fair value through profit and loss and foreign exchange result' of the Profit and Loss Account.

6. Impairment of financial assets

Assets valued at amortized cost

The Bank assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The objective evidence of impairment includes, inter alia, information on one or more of the following loss- events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal repayments;
- concessions granted by the Bank to a borrower caused by borrower's financial difficulties due to the economic or legal aspects, which would not be considered otherwise;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Bank, including:
  - adverse changes in the payment status of borrowers; or
  - national or local economic conditions that correlate with defaults on the assets in the Bank.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. The Bank classifies credit receivables by size of engagement, into the individual and group portfolios. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables or other financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The calculation of the present value of estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral or other external sources.

For the purpose of collective evaluation of impairment, the credit exposures are grouped on a basis of the uniformity of credit risk connected with the given portfolio. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of contractual cash flows and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. For the purposes of the calculation of the provision against balance sheet exposures analysed collectively, inter alia, the probability of default (parameter PD) method is applied. Modification of the PD parameter takes into account characteristics of specific products and emerging periods for losses on those products. In particular this approach allows to detect credit losses as of the balance sheet date: 1) incurred and reported, as well as 2) incurred but not yet reported (the so-called revaluation charge „IBNR" provision).

The impairment is presented as a reduction of the carrying amount of the asset whereas the amount of the loss (the amount of deductions created during reported period) shall be recognized in profit or loss.

When a loan is uncollectible, it is written off against the related provision for impairment. Before any loan is written off, it is necessary to conduct all the required procedures and to determine the amount of the loss. Recoveries subsequent to write – offs decrease the amount of the provision for loan impairment in the profit and loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed either directly or by adjusting an allowance account. The amount of the reversal shall be recognised in profit or loss.

Financial assets available for sale

At each balance sheet date the Bank estimates whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity instruments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired.

For financial assets classified as available for sale, if the impairment of the fair value of such assets was recorded directly in equity and if there are objective impairment triggers for such asset, then the cumulated losses so far recognised directly in equity are removed from equity and recorded in the income statement, despite the financial asset not having been removed from the balance sheet.

The amount of cumulated losses which is taken off equity and recognised in the income statement constitutes the difference between the cost of purchase (less any repayment of capital and depreciation) and the current fair value, less any impairment losses for such asset which were previously recorded in the profit and loss account.

Impairment losses on an investment in a capital instrument qualified as available for sale are not reversed through the income statement.

If the fair value of a debt instrument classified as available for sale grows later and such growth can be objectively linked to an event which took place after the impairment was included in the income statement, then the impairment charge is reversed in the income statement.

7. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

8. Transactions with sell/buy-back clauses

Repo and sell-buy back transactions as well as reverse-repo and buy-sell back transactions, are transactions of sale and purchase of securities for which a commitment has been made to repurchase or resell them at a contractual date and for specified contractual price.

The Bank presents financial assets sold with the repurchase clauses (repo, sell buy-back) in its balance sheet, by simultaneously recognizing a financial liability resulting from the repurchase clause.

This is in order to reflect the risks and rewards arising on this asset that is retained by the Bank after the transfer. When the Bank purchases securities with a sell back clause (reverse repo, buy-sell-back), the financial assets are presented as receivables arising from sell back clause.

These transactions are measured at amortized cost, and securities which are the subject of aforementioned transactions are not removed from the balance sheet and are measured in accordance with principles applicable for particular securities portfolio.

The difference between sale and repurchase price is treated as interest cost/ income, and is accrued over the period of the agreement by application of an effective interest rate.

9. Settlement of leasing agreements

The Bank is a party to leasing agreements based on which it accepts for paid use or collecting benefits external fixed assets for an agreed period.

In the case of lease contracts, under provisions of which the Bank takes transferring substantially all risks and rewards resulting from the ownership of the assets being the subject of the contract (financial leasing), the subject of the lease (in this case: investments in third party fixed assets, equipment, furniture and means of transport) is recognized in the Bank's Balance Sheet and the settlement of lease payments is reflected in the profit and loss account based on effective interest rate method.

In the case of operating lease contracts concluded by the Bank, under which substantially all risks and rewards resulting from leased assets are taken by the party who provides the assets (lessor), lease payments are recognized as costs in the profit and loss on a straight-line basis throughout the period of the lease.

10. Property, plant and equipment and Intangible Assets

Own property, plant and equipment and intangible assets

Tangible fixed assets are the controlled fixed assets and outlays made to build such assets. Tangible fixed assets include fixed assets with an expected period of use above one year, maintained to be used to serve the Bank's needs or to be transferred to other entities, under the rent agreement or for administrative purposes.

Tangible fixed assets are reported at historical cost less depreciation and impairment.

Fixed assets under construction are disclosed at the value of the purchasing price or production cost and are not subject to depreciation.

The Bank recognises in the on-balance value of tangible fixed assets the costs of replacing part of those positions at the moment of incurring them, if it is likely to obtain future economic benefits connected with a given asset and the purchasing price or production cost can be credibly valued. Other costs are incurred in the income statement at the moment of their incurring.

Costs of repairing and maintenance of tangible fixed assets encumber the income statement in the reporting period in which they were incurred.

Borrowing costs related to the acquisition, construction or production of an asset, are recognised by the Bank as an expense in the period in which they are incurred

Intangible assets

An intangible asset is an identifiable non-pecuniary asset which does not have physical form and will generate economic benefits for the Bank in the future.

The main components of intangible assets are licenses for computer software.

Purchased computer software licenses are activated in the amount of incurred cost of purchase and preparation for use, taking into account impairment charges.

Outlays associated with the improvement and maintenance of computer software are disclosed as costs at the moment of being incurred.

Other intangibles purchased by the Bank are recognized at cost less accumulated amortization and accumulated impairment write-offs.

Subsequent costs incurred after initial recognition of acquired intangible assets are recognized only when it is probable that future economic benefits will flow to the Bank. In the other cases, costs are charged to the profit and loss in the reporting period in which they were incurred.

All intangible assets are subject to periodic review in order to verify whether there were triggers indicating possible loss of values, which would require a test for the loss of values and an impairment recognition.

Depreciation and amortization charges

The depreciation charge of tangible and intangible assets is accounted for on a straight line basis with the use of defined depreciation rates throughout the period of their useful lives. The depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value. The useful life, amortization/ depreciation rates and residual values of tangible and intangible assets are reviewed annually. Conclusions of the review may lead to a change of depreciation periods recognized prospectively from the date of application.

No depreciation is made of land, outlays for tangible fixed assets and outlays for intangible assets. Neither are any depreciation charges made with respect to an intangible asset with an indefinite period of use. Intangible assets with an indefinite period of use are regularly tested for impairment as of every balance sheet date.

On-balance depreciation rates employed for basic groups of tangible fixed assets and intangible assets and for investment real estate are as follows:

Selected categories of property, plant and equipment:

Bank buildings	2.5%
Lease holding improvements	period of the lease
Computer hardware	30.0%
Network devices	30.0%
Vehicles	20.0%
Telecommunication equipment:	10.0%

Intangibles (software):

Main applications (systems)	10.0%

For other computer software the Bank applies the rate not higher than 50%, which depends on the expected useful life.

Depreciation and amortization charges are recognized as operating expenses in the profit and loss account.

11. Non current assets held for sale

The Bank classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.
For this to be the case the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale is highly probable. The sale is highly probable if the appropriate level of management is committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan has been initiated.
Further, the asset is actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale is expected to qualify for recognition as a completed sale within one year from the date of classification.

Non- current assets held for sale are measured at the lower of: its carrying amount or fair value less cost to sell. Assets classified in this category are not depreciated.
When criteria for classification to non-current assets held for sale are not met, the Bank ceases to classify the assets as held for sale. The Bank measures a non-current asset that ceases to be classified as held for sale (or ceases to be included in a disposal group classified as held for sale) at the lower of:

(a) its carrying amount before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset (or disposal group) not been classified as held for sale, and

(b) its recoverable amount at the date of the subsequent decision not to sell.

12. Impairment of non current assets

The Bank assesses the existence of any indications that a non-current asset may be impaired at each balance sheet date. If such indications exist, the Bank estimates the recoverable amount of the asset and if the recoverable amount of an asset is less than its carrying amount, the Bank recognizes impairment charge in the profit and loss.

The impairment loss is the difference between the carrying amount and the recoverable amount of the asset. Recoverable amount is the higher of an asset's fair value less cost to sell and its value in use. Value in use is established for particular assets, if a given asset generates cash flows substantially independent of those generated by other assets or groups of assets. If such indications exist, the Bank performs an estimation of recoverable value. If, and only if, the recoverable value of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable value.

If pursuant to IAS 36, paragraph 21 there is no reason to believe that an asset's value in use materially exceeds its fair value less costs to sell, the asset's fair value less costs to sell may be used as its recoverable amount. This will be particularly the case of an asset that is held for disposal.

An impairment charge can be reversed through P & L to the level at which the book value of the asset does not exceed the net book value of a given asset component on the assumption that no revaluation charge was made, but depreciation was continued.

Prepayments, Accruals and Deferred Income

Prepayments comprise of particular expenses which will be settled against the profit and loss as being accrued over the future reporting periods. Prepayments are presented in the caption 'Other assets' in the balance sheet.

Accruals are provisions for costs arising from services provided to the Bank, which will be payable over future periods. The accruals are recognized in the caption „Other Liabilities" in the balance sheet.

Deferred income comprises among others received amounts of future services and other types of income received in advance to be settled against in the profit and loss in future reporting periods. They are presented in the caption „Other Liabilities" in the balance sheet.

13. Provisions

Provisions are established when (1) the Bank has an obligation (legal or constructive) as a result of past events, and (2) it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (3) a reliable estimate can be made of the amount of the obligation. If the effect is material, the amount of provision is measured by discounted, expected cash flows using pre-tax rate that reflects current market assessments of the time value of money and those risks specific to the liability.

A provision for restructuring costs is recognised only when the general criteria for provisions recognition as well as specific criteria for restructuring provision recognition specified in IAS 37 are met. In particular, the constructive obligation to restructure arises only when the Bank has a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it would carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A detailed formal plan for the restructuring identifies at least: the business or part of a business concerned; the principal locations affected; the location, function, and approximate number of employees who will be compensated for terminating their services; the expenditures that will be undertaken; and when the plan will be implemented.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both: (a) necessarily entailed by the restructuring; and (b) not associated with the ongoing activities of the entity. The restructuring provision does not cover future operating expenses.

Employee Benefits

Short-Term Employee Benefits

Short-term employee benefits of the Bank (other than termination benefits) comprises of wages, salaries, and paid annual leave and social security contributions.

The Bank recognizes the anticipated, undiscounted value of short-term employee benefits as an expense of an accounting period when an employee has rendered service (regardless of payment date) in correspondence with other on-balance liabilities.

The amount of short-term employee benefits on the unused holidays to which Bank employees are entitled is calculated as the sum of unused holidays to which particular Bank employees are entitled.

Long-term employee benefits

The Bank’s liabilities on long-term employee benefits are equal to the amount of future benefits which the employee will receive in return for providing his services in the current and earlier periods which are not fully due within 12 months from carrying out the work.

In accordance with the Employees Remuneration By-laws and the Labour Code employees having worked a specific number of years and attained the required age are entitled to receive a pension severance payment. Retirement pension severance payments provision is calculated using an actuarial method by an independent actuary as the present value of the Bank's future liabilities due to employees according to the headcount and wages as at the date of revaluation. The provision is updated on an annual basis.

Provisions for short-term and long-term employee benefits are recognized in the caption 'Other Liabilities' in balance sheet in correspondence with the 'staff costs' in the profit and loss.

The Bank fulfils a programme of post – employment benefits called defined contribution plan. Under this plan the Bank pays fixed contributions into the state pension fund. Post – employment benefits are paid to an employee from the proceeds of the fund including the return on the invested contributions. Consequently, the Bank does not have a legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

14. Bank's Equity

Equity consists of capital and funds established in compliance with the respective provisions of the law, i.e., the appropriate legislative acts, the Company by-laws, or the Articles of Association.

Equity is comprised of the share capital, share premium, revaluation reserve and retained earnings. All balances of capital and funds are presented at nominal value.

Share Capital

Share capital is presented at nominal value, in accordance with the Articles of Association and the entry in the Register of Companies.

If the Bank acquires its own shares, then the paid amount together with the costs directly attributed to such purchase is treated as a change in the Equity. Acquired own shares are treated as own shares and disclosed as reduction of the Equity until the time they are cancelled.

Dividends for the financial year which have been approved by the General Shareholders' Meeting, but not distributed as of the balance sheet day are disclosed in the caption „Other Liabilities" in the balance sheet.

Share Premium

Share premium is formed from agio obtained from the issue of shares reduced by the attached direct costs incurred with that issue.

Revaluation Reserve

Revaluation reserve consists of: revaluation of financial assets available for sale and result of cash flow hedge valuation with deferred income tax effect applied. Revaluation reserve is not subject to distribution.

Retained Earnings

Retained earnings are created with charges against profit and are allocated for purposes specified in the Articles of Association or other legal regulations (the remaining part of supplementary capital, additional reserve capital, including general banking risk fund) or constitute previous years' profit/loss or year-to-date net financial result.

The General Banking Risk Fund at Bank Millennium SA is created from profit after tax in accordance with the Banking Act dated 29 August 1997 as later amended.

A current period's net financial income is the result from the current period's income statement adjusted by the corporate income tax charge.

15. Financial guarantee

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantees granted are measured at the higher of:

(a) The amount being the best estimate of the expenditure required to settle the present obligation resulting from this financial guarantee, considering the probability of its realization;

(b) the amount initially recognised less amortized amount of commission received for guarantee granting.

16. Interest income

The Bank recognises in the Profit and Loss Account all interest revenue and costs concerning financial instruments measured at amortised cost with use of the effective interest rate method as well as financial assets available for sale.

Interest income/costs on derivatives classified as held for trading are recognized in the caption 'Result on financial instruments valued at fair value through profit and loss and foreign exchange result'. Interest income on debt securities, classified as held for trading, is recognised in the caption 'Interest income'.

Net interest income covers also interest income and expense on derivative instruments designated as and being effective hedging instruments in the hedge accounting (detailed information on active hedge accounting relationships is presented in note 17).

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense or certain commission (those constituting an integral part of the interest rate) over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument without considering future credit losses. The calculation includes all fees and points paid or received between contracting parties, that are an integral part of the effective interest rate, as well as transaction costs, and all other premiums or discounts.

Interest income comprises interest and commissions (received or due) included in the calculation of the effective interest rate on: loans with repayment schedule, inter-bank deposits and securities held to maturity, available for sale and valued at fair value through profit and loss account. Additionally, interest income includes the directly attributable incremental costs to the conclusion loan agreement incurred by the Bank (mainly commissions paid to external and own agents for concluding mortgage loan agreements, and costs of property valuation connected with this type of agreements) that are an integral part of the effective interest rate calculation and subject to amortization over time.

At the time of recognition of an impairment loss on a financial instrument carried at amortized cost and available for sale financial assets, interest income is recognised in the profit and loss calculated on a net asset value basis (gross carrying amount less impairment amount). In this case interest income is calculated using the interest rate applied for discounting future cash flows for the purpose of impairment valuation.

17. Fee income/ Fee and commission expenses

Fee income and expenses relating to the handling of bank accounts, payment card operations, are included in the income statement at the moment of carrying out the service, while the remaining fees and commissions are settled over time.

The basic types of commissions associated with lending operations at the Bank include among others preparation fees/commissions and commitment fees.

Fees and commissions (both income and expense) directly associated with the origination of financial assets having specific repayment schedules are included in the income statement as an element of the effective interest rate; they are part of interest income. Other fees integrally associated with the origination of assets without specific time schedules are settled on a straight-line basis within the duration of the contract. Fees for a commitment to grant an advance which will probably be taken are deferred and once the financial assets arise are settled as an element of an effective interest rate or on a straight-line basis with the use of the above-mentioned criterion. In the case of loans and advances with unspecified instalment payment dates and unspecified interest rate repricing dates, e.g.

overdraft facilities and credit cards, commissions are settled over time throughout the period of card validity or overdraft limit validity by straight-line method and accounted towards commission income.

In connection with performance of a material transaction consisting in intermediation in the sale of insurance policies, the Bank upon the initial recognition of loan receivables reports in the Profit and Loss Account the fair value of the provided service of sale of an insurance policy. As for the remaining part of insurance fees, the Bank settles it over time as an integral part of effective interest rate and reports it in the Profit and Loss Account under interest income.

Remaining fees and commissions connected with financial services offered by the Group, such as:

- Asset management services;
- Services connected with cash management;
- Income from participation system of remuneration of the Bank from participation in insuring bank products (The bank is paid part of the earnings generated by the insurer in cooperation with the Bank).
- Brokerage services;
- Fees for withdrawal of funds before maturity of the deposit;

are recognised in the Profit and Loss Account on a cash basis.

18. Dividend Income

Dividend income is recognized in the profit and loss when the shareholders' right to receive payment is established.

19. Result on Investment Financial Instruments

Result on investment financial instruments includes profits and losses generated as a result of selling financial instruments classified as 'available for sale', and other profits and losses arising from investment activities.

20. Result on Financial Instruments Valued at Fair Value through the Profit and Loss Account and foreign exchange result

Result on financial instruments valued at fair value through profit and loss and foreign exchange result includes profits and losses generated as a result of selling financial instruments from the trading portfolio and the effect of their valuation to fair value (debt securities and derivatives held for trading) as well as foreign exchange profit.

Foreign exchange profit includes: i) realised result and result of valuation of FX spot and FX forward transactions ii) exchange gains and losses, both realised and unrealised, arising from day to day valuation of assets and liabilities denominated in foreign currency at the average rate established as at the balance sheet date for a given currency by National Bank of Poland.

21. Other Operating Income and Expenses

Other operating income and expenses include expenses and incomes not associated directly with the Bank's core activity.
In particular, this is result on sale and liquidation of fixed assets, income from sale of other services, received and paid damages, penalties and fines.

22. Income tax

Corporate income tax comprises current and deferred tax.
Current income tax is calculated on profit before tax, established in accordance with appropriate accounting regulations adjusted by non-taxable income and non-tax deductible expenses, with usage of binding tax rate. Moreover, for tax purposes, the gross profit is adjusted by previous years' income and expenses realised for tax purposes in a given reporting period and deductions from income arising from e.g. donations.

Deferred income tax depending on the source of the origin of the temporary differences is recorded in the income statement or in equity.

The Bank forms a provision for a deferred income tax asset and liability due to temporary differences on income tax. These differences are caused by a timing shift between the moment of recognising income as earned and expense are incurred according to accounting and corporate income tax regulations. The provision for deferred income tax is recognised in liabilities as "Provision for deferred income tax".

Provision for a deferred income tax is recognized in liabilities in the caption 'deferred income tax liabilities'. Deferred income tax asset is recognized in assets as 'deferred income tax assets'. The Bank offsets deferred tax assets and deferred tax liabilities if, and only if it has a legally enforceable right for such netting and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority.

The deferred income tax asset or liability are created on a balance sheet method basis with regard to all temporary differences as at the balance sheet date between carrying amount of an asset or liability in the balance sheet and its tax value.
Deferred income tax liabilities are created for all positive temporary differences except when it arises from the amortization of goodwill or initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transactions affects neither accounting profit nor taxable profit (tax loss).

Deferred income tax assets are recognised with respect to all negative timing differences as at the balance sheet date between carrying amount of an asset or liability in the balance sheet and its tax value. Deferred income tax assets are also recognised for the unused tax losses carried forward. Deferred income tax assets are recognised in the amount in which taxable income is likely to be achieved, which allows to set off negative temporary differences and unused tax losses carried forward.

Deferred income tax assets are not recognised for negative temporary differences arising from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transactions affects neither accounting profit nor taxable profit (tax loss).

The carrying amount of a deferred income tax asset is verified for each balance sheet date and reduced if it is no longer likely to achieve taxable income sufficient for a partial or component in respect of deferred income tax.

The calculation of assets on deferred income tax and provisions for deferred tax is based on the anticipated degree of realising the on-balance value of assets and liabilities, with the application of the tax rates, which are anticipated to be in force in the period when the asset is realised or provision eliminated, taking as the basis the tax rates (and tax regulations) legally or factually binding as of the balance sheet date.

Income tax relating to positions included directly in equity is recognised in equity.

23. Application of Estimates in connection with Accounting Policies

The preparation of financial statements in accordance with IFRS requires from the Bank the use of estimates and assumptions that affect the amounts reported in the financial statements.

The estimates and assumptions, revised by the Bank management on a regular basis, are made on basis of historical experience and other factors considered being relevant in given circumstances.

Despite the fact, that such estimates are based on best knowledge about current conditions and activities undertaken by the Bank, the actual results may differ from the estimates. The major areas for which the Bank makes estimates are presented below.

- *Impairment of loans and advances*

For each balance sheet date, the Bank assesses, whether there is objective evidence of impairment of a given financial asset or group of financial asset. The Bank assesses whether there are observable data indicating that there is a measurable decrease in the estimated future cash flows from a given loan portfolio since the initial recognition of those assets, although the decrease cannot yet be identified with the individual. The estimates include any observable indications pointing at the occurrence of an unfavourable change in the solvency position of debtors belonging to any particular group or national or local economic conditions that correlate with defaults on the assets in the group.

Historical parameters of recoveries are adjusted on the basis of the data coming from current observations, so as to take into consideration the influence of current conditions and to exclude the influencing factors in the historical period, that are no longer applicable. The methodology and the assumptions for calculating the amount and timing of estimated cash flows to be received are regularly reviewed and updated, in order to estimate the difference between the actual loss results and estimations of impairment.

- *Fair value of financial instruments*

Fair value of financial instruments not quoted on active markets is determined with use of measurement techniques consistent with the Bank's accounting policy. With respect to non-option derivatives and debt securities use is made of models based on discounted cash flows. Option pricing models are applied to option instruments. All models are approved prior to use and also calibrated to ensure that attained results reflect the actual fair value of the measured instruments. If possible, only observable data from the active market are used in the models.

In case of lack of measurement parameters coming from the active market, fair value is determined on the basis of application of measurement techniques using estimated input parameters.

The Bank measures financial instruments using the measurement methods below in the following hierarchical order:

- Prices quoted on the active market for identical instruments for following financial instruments:
  - treasury fixed-coupon, zero-coupon debt securities and floating interest debt securities;
- Techniques of measurement based on parameters coming from the market for following financial instruments:
  Treasury floating interest debt securities,
  Derivatives:
  - FRA, IRS, CIRS;
  - FX Swap, FX Forward;
  - Embedded derivatives;
  - Options placed by the Bank;
  - Bills issued by the Central Bank;
  - forwards on the price of raw materials

- Techniques of measurement with use of significant parameters not coming from the market:
  Debt securities of other issuers (e.g. municipalities),
  Derivatives:
  - FX Options acquired by the Bank.

The most important parameter not coming from an active market and used by the Bank for measurement of financial instruments is the component of credit risk on account of transactions concluded by the Bank on derivatives with non-bank customers, in a situation when uncertainty with respect to future settlement of the transaction exposes the Bank to potential loss.

- *Impairment of other non current assets*

The Bank assesses the existence of any indications that a non-current asset may be impaired at each balance sheet date. If such indications exist, the Bank performs an estimation of recoverable amount. Estimation of value-in-use of a non-current asset (or cash generating units) requires assumptions to be adopted, regarding, among others, amounts and timing of future cash flows, which the Bank may obtain from the given non-current asset (or cash generating unit). The Bank performs an estimation of the fair value less costs to sell on the basis of available market data regarding this subject or estimations made by external parties, which are also based on estimations.

- *Other Estimate Values*

Retirement provision is calculated using an actuarial method by an independent actuary as the present value of future liabilities of the Bank due to employees based on headcount and remuneration as of the date of the update. The estimation of the provision is made on the basis of several assumptions, regarding macroeconomic conditions and employee turnover, mortality risk and other.

With regard to certain short-term employee benefits (bonuses granted to directors and key management personnel), the Management Board makes assumptions and estimates regarding the amount of benefits as at the balance sheet date. The final amount of bonuses granted is established by the Supervisory Board.

VII. NOTES TO FINANCIAL REPORT

Figures presented in the notes to financial report in PLN thousands.

(1) INTEREST INCOME

1. Interest income and other of similar nature

	01.01.2011 - 31.12.2011	01.01.2010 - 31.12.2010
Interest income and other of similar nature, including:		
Balances with the Central Bank	52 367	35 454
Loans and advances to banks	20 046	10 289
Loans and advances to customers	1 692 209	1 466 465
Transactions with repurchase agreement	11 067	10 084
Hedging derivatives	589 218	368 775
Financial assets held for trading (debt securities)	21 561	91 830
Investment securities	188 223	221 419
Total	**2 574 691**	**2 204 316**

The item „Hedging derivatives” contains net interest income on selected derivatives used as effective hedging instruments regarding cash flows and fair value. Detailed description of hedging mechanisms applied by the Bank can be found in ***note (17)***.

Interest income for the year 2011 contains interest accrued on impaired loans in the amount of PLN 98,131 thous. (for corresponding data in the year 2010 the amount of such interest stood at PLN 107,312 thous.). This interest income is calculated on the basis of net exposure amounts, which take into account the posted impairment charges.

(2) INTEREST EXPENSE

2. Interest expense and other of similar nature

	01.01.2011 - 31.12.2011	01.01.2010 - 31.12.2010
Interest expense and other of similar nature, including:		
Banking deposits	(8 737)	(19 501)
Loans and advances from banks	(69 590)	(80 063)
Transactions with repurchase agreement	(57 911)	(45 254)
Deposits from customers	(1 375 400)	(1 221 079)
Subordinated debt	(31 593)	(25 770)
Debt securities	(7 486)	(9 552)
Other	(1 513)	(2 722)
Total	**(1 552 230)**	**(1 403 943)**

(3) FEE AND COMMISSION INCOME

3a. Fee and commission income

	01.01.2011 - 31.12.2011	01.01.2010 - 31.12.2010
Resulting from accounts service	111 458	106 420
Resulting from loan activity	54 399	49 613
Resulting from payments service	42 832	43 967
Resulting from payment and credit cards	187 456	180 032
Resulting from sale of insurance products	60 827	62 447
Resulting from distribution of investment funds units and other savings products	84 576	92 668
Resulting from guarantees and sureties granted	19 069	16 851
Resulting from brokerage and custody service	7 652	7 143
Other	11 678	8 995
Total	**579 946**	**568 136**

3b. Fee and commission expense

	01.01.2011 - 31.12.2011	01.01.2010 - 31.12.2010
Resulting from accounts service	(1 679)	(1 376)
Resulting from loan activity	(6 760)	(5 169)
Resulting from payments service	(3 178)	(3 670)
Resulting from payment and credit cards	(43 153)	(32 588)
Other	(9 506)	(3 242)
Total	(64 276)	(46 045)

In 2011 the Bank changed the presentation of financial data in the area of classification of the various types of commission. These changes concern the grouping of financial data and in view of the financial statements affect only the presentation of information in above note. In order to maintain comparability of financial information appropriate changes in the presentation of financial data for 2010 have been made in relation to previously published data in financial statements for year 2010.

(4) DIVIDEND INCOME

4. Dividend income

	01.01.2011 - 31.12.2011	01.01.2010 - 31.12.2010
Dividend income from related parties	11 619	18 206
Dividend income from other entities	1 926	1 985
Total	**13 545**	**20 191**

Net dividends from subsidiaries under consolidation (eliminated in the consolidated report) recognized by the Bank in the Profit and loss account, amounted in financial years 2011 and 2010 to PLN 11,000 thousand, and PLN 18,206 thousand, respectively.

(5A) RESULT ON INVESTMENT FINANCIAL ASSETS

5a. Result on investment financial assets

	01.01.2011 - 31.12.2011	01.01.2010 - 31.12.2010
Operations on debt instruments	2 489	6 372
Operations on equity instruments	5 930	0
Total	**8 419**	**6 372**

(5B) NET INCOME ON FINANCIAL INSTRUMENTS VALUED AT FAIR VALUE THROUGH PROFIT AND LOSS ACCOUNT AND FOREIGN EXCHANGE RESULT

The Result on financial instruments measured at fair value through profit and loss account and foreign exchange result comprises profits and losses generated as a result of selling financial instruments allocated to financial assets/liabilities measured at fair value through the profit and loss account and the effect of their fair value valuation.

This category includes the instruments qualified as "held for trading" – at the moment the Bank does not use the capacity to assign other instruments as valued at fair value through the profit and loss account at the initial recognition (so-called fair value option).

In 2008 Bank transferred Treasury bonds nominally valued at PLN 120 million from the „intended for trading" portfolio to the „available for sale" portfolio. Information on such transfer along with figures are presented in Chapter IX „ Reclassification of Debt Securities".

5b. Result on financial instruments valued at fair value through profit and loss and foreign exchange result

	01.01.2011 - 31.12.2011	01.01.2010 - 31.12.2010
Operations on securities	(11 605)	3 992
Operations on derivatives	88 498	90 333
Fair value hedge accounting operations, including:	(427)	(3 752)
- result from hedging derivatives	(4 451)	(5 201)
- result from items subjected to hedging	4 024	1 449
Foreign exchange result	111 244	122 540
Costs of financial operations	(2 677)	(2 773)
Total	**185 033**	**210 340**

(6) OTHER OPERATING INCOME

6. Other operating income

	01.01.2011 - 31.12.2011	01.01.2010 - 31.12.2010
Profit on sale and liquidation of property, plant and equipment, intangible assets	0	606
Income from sale of other services	12 652	11 941
Income from collection service	1 400	1 574
Income from adjustment in VAT settlements	0	3 111
Other	15 220	9 967
Total	**29 272**	**27 199**

(7) GENERAL AND ADMINISTRATIVE EXPENSES

7. General and administrative expenses

	01.01.2011 - 31.12.2011	01.01.2010 - 31.12.2010
Staff costs:	**(500 066)**	**(486 161)**
Salaries (including bonuses)	(423 088)	(415 484)
Social security contributions	(58 986)	(57 782)
Employee benefits, including:	(17 992)	(12 895)
- provisions for retirement benefits	(1 184)	(1 461)
- provisions for unused employee holiday	(3 501)	1 024
- other	(13 307)	(12 458)
General administrative costs	**(497 361)**	**(463 485)**
Costs of advertising, promotion and representation	(49 929)	(47 354)
Costs of software maintenance and IT services	(18 366)	(14 803)
Costs of renting	(174 670)	(165 794)
Costs of buildings maintenance, equipment and materials	(28 457)	(28 694)
ATM and cash costs	(22 141)	(20 796)
Costs of communications and IT	(62 900)	(63 047)
Costs of consultancy, audit and legal advisory and translation	(13 625)	(13 973)
Taxes and fees	(18 016)	(17 660)
KIR clearing charges	(2 999)	(2 655)
PFRON costs	(5 664)	(5 406)
BFG costs	(30 766)	(13 621)
Financial Supervision costs	(4 753)	(4 920)
Other	(65 074)	(64 761)
Total	**(997 427)**	**(949 646)**

(8) IMPAIRMENT LOSSES ON FINANCIAL ASSETS

8. Impairment losses on financial assets

	01.01.2011-31.12.2011	01.01.2010 -31.12.2010
Impairment losses on loans and advances to customers	**(140 895)**	**(133 599)**
- Impairment charges on loans and advances to customers	(432 714)	(540 369)
- Reversal of impairment charges on loans and advances to customers	278 074	403 209
- Amounts recovered from loans written off	4 053	3 561
- Result from sale of receivables portfolio	9 692	0
Impairment losses on investment securities	**0**	**(16 538)**
- Impairment write-offs for investment securities	0	(16 538)
Impairment losses on investments in associates	**(1 384)**	**0**
- Impairment write-offs for investments in associates	(3 084)	0
- Reversal of impairment write-offs for investments in associates	1 700	0
Impairment losses on off-balance sheet liabilities	**(7 998)**	**3 998**
- Impairment write-offs for off-balance sheet liabilities	(17 226)	(7 743)
- Reversal of impairment write-offs for off-balance sheet liabilities	9 228	11 741
Total	**(150 277)**	**(146 139)**

(9) IMPAIRMENT LOSSES ON NON FINANCIAL ASSETS

9. Impairment losses on non financial assets

	01.01.2011 - 31.12.2011	01.01.2010 - 31.12.2010
Fixed assets	0	0
Other assets	562	(2 218)
Total	**562**	**(2 218)**

(10) DEPRECIATION AND AMORTIZATION

10. Depreciation and amortization

	01.01.2011 - 31.12.2011	01.01.2010 - 31.12.2010
Property, plant and equipment	(53 699)	(63 330)
Intangible assets	(8 626)	(8 386)
Total	**(62 325)**	**(71 716)**

(11) OTHER OPERATING COSTS

11. Other operating expenses

	01.01.2011 - 31.12.2011	01.01.2010 - 31.12.2010
Loss on sale and liquidation of property, plant and equipment, intangible assets	(85)	0
Indemnifications, penalties and fines paid	(2 402)	(1 146)
Provisions for contentious claims	(11 134)	(2 645)
Costs of sale of other services	(11 094)	(7 589)
Donations made	(330)	(314)
Costs of collection service	(13 804)	(12 320)
Other	(2 146)	(3 485)
Total	**(40 994)**	**(27 499)**

(12) INCOME TAX

12a. Income tax reported in income statement

	01.01.2011 - 31.12.2011	01.01.2010 - 31.12.2010
Current tax	(107 737)	(54 038)
Current year	(107 737)	(54 038)
Deferred tax	(844)	(14 268)
Appearance and reversal of temporary differences	(844)	(14 268)
Recognition / (Utilisation) of tax loss	0	0
Adjustment resulted from Article 38a of CIT	(16)	0
Total income tax reported in income statement	**(108 597)**	**(68 306)**

12b. Effective tax rate

	01.01.2011 - 31.12.2011	01.01.2010 - 31.12.2010
Gross profit / (loss)	523 939	389 348
Statutory tax rate	19%	19%
Income tax according to obligatory income tax rate of 19%	(99 548)	(73 976)
Impact of permanent differences on tax charges:	(9 033)	5 670
- Non taxable income	3 445	10 967
Dividend income	2 561	3 825
Other	884	7 142
- Cost which is not a tax cost	(12 478)	(5 297)
Loss on sale of receivables	(3 789)	0
PFRON fee	(1 076)	(1 027)
Other	(7 613)	(4 270)
Adjustment resulted from Article 38a of CIT	(16)	0
Total income tax reported in income statement	**(108 597)**	**(68 306)**

12c. Deferred tax reported directly in equity

	31.12.2011	31.12.2010
Valuation of available for sale securities	652	(2 347)
Valuation of cash flow hedging instruments	(24 077)	14 135
Deferred tax reported directly in equity	**(23 425)**	**11 788**

On 1 January 2011 the Bank created with a subsidiary - Millennium Services Sp. z o.o. ., Tax Capital Group (TCG). TCG is a vehicle, described in and subject to the provisions of the Polish Corporate Income Tax law. The essence of TCG is to concentrate two or more related entities as one taxpayer for the corporate income tax purposes. The creation of TCG does not lead to the creation of a new entity, and consolidation is done only at the level of corporate income tax settlements.

TCG formation is aimed at increasing the efficiency of tax management within the Group and reducing risks resulting from the corporate income tax settlements through centralization of expertise of tax calculations and payments obligations to one chosen entity of the Group (the Bank).

Bank Millennium S.A. tax control procedures

In 2011 the Tax Inspection Office conducted a tax inspection at Bank Millennium S.A., which questioned the Bank's 2005 income tax calculation. The Bank paid the amount of tax due resulting from this tax inspection of PLN 69.4 million, including interest, to the Tax Office (in the balance sheet prepared as the end of 2011 aforementioned amount is presented as receivables from Tax Office). After a thorough review of the tax inspection findings the Management Board continues to fully supports the accuracy of its 2005 tax calculation, in the Management's Board view the inspection findings by the Tax Inspection Office are not substantiated and the amount paid to the Tax Office will be recovered in full. As such, as at 31st December 2011, no provision was recorded in respect of the described tax inspection procedures. In January 2012, the Tax Office repaid the amount of PLN 66 million to the Bank, sustaining, however, its negative position towards the Bank in this matter. This event is not a conclusion of the issue described, which is dependent upon further decisions of the tax authorities and upon the result of possible court proceedings, as well as it does not change of the Management Board's assessment of this matter, as described above.

(13) EARNINGS PER SHARE

Under IAS 33, the Bank calculates earnings per share on the basis of consolidated data and presents these earnings in the consolidated financial report.

(14) *CASH, BALANCES WITH THE CENTRAL BANK*

14a. Cash, balances with the Central Bank

	31.12.2011	31.12.2010
Cash	631 372	480 368
Cash in Central Bank	1 386 138	1 570 107
Other funds	40	40
Total	**2 017 550**	**2 050 515**

In the period from 30 of November 2011 to 1 of January 2012 the Bank was obliged to keep on its current account with NBP (the central bank) an average balance of PLN 1,319,704 thousand (arithmetic average of balances on the NBP current account on all days of the deposit-holding period). The interest rate on funds on the mandatory deposit account constitutes 0.9 of the central bank's rediscount rate and in the above-mentioned period of time was 4.275%.

14b. Cash, balances with the Central Bank – by currency

	31.12.2011	31.12.2010
a. in Polish currency	1 764 358	1 830 411
b. in foreign currencies (after conversion to PLN)	253 192	220 104
- currency: USD	38 319	31 638
- currency: EUR	117 961	120 517
- currency: CHF	34 155	13 345
- currency: GBP	26 410	19 488
- other currencies (PLN '000)	36 347	35 116
Total	**2 017 550**	**2 050 515**

(15) *DEPOSITS IN OTHER BANKS AND LOANS AND ADVANCES TO BANKS*

15a. Loans and advances to banks

	31.12.2011	31.12.2010
Current accounts	141 926	110 114
Deposits in other banks	2 112 214	1 003 003
Loans	402 152	371 164
Other	5	275
Interest	4 069	1 241
Total (gross) loans and advances to banks	**2 660 366**	**1 485 797**
Impairment write-offs	0	0
Net loans and advances to banks	**2 660 366**	**1 485 797**

15b. Loans and advances to banks by maturity date

	31.12.2011	31.12.2010
Current accounts	141 926	110 114
to 1 month	2 112 219	1 003 278
above 1 month to 3 months	0	0
above 3 months to 1 year	0	0
above 1 year to 5 years	402 152	371 164
above 5 years	0	0
past due	0	0
Interest	4 069	1 241
Total (gross) loans and advances to banks	**2 660 366**	**1 485 797**

15c. Loans and advances to banks by currency

	31.12.2011	31.12.2010
in Polish currency	671 362	387 782
in foreign currencies (after conversion to PLN)	1 989 004	1 098 015
- currency: USD	35 920	21 452
- currency: EUR	1 848 010	1 027 048
- currency: CHF	19 534	17 908
- currency: GBP	21 120	9 743
- other currencies (PLN ‘000)	64 421	21 864
Total	**2 660 366**	**1 485 797**

15d. Change of impairment write-offs for loans and advances to banks

	31.12.2011	31.12.2010
Balance at the beginning of the period	0	0
Change in the period	0	0
Balance at the end of the period	**0**	**0**

(16) FINANCIAL ASSETS VALUED TO FAIR VALUE THROUGH THE PROFIT AND LOSS (HELD FOR TRADING) AND ADJUSTMENT FROM FAIR VALUE HEDGE

16a. Financial assets valued at fair value through profit and loss (held for trading) and adjustment from fair value hedge	31.12.2011	31.12.2010
Debt securities	**316 250**	**980 360**
Issued by State Treasury	316 250	980 360
a) bills	0	67 486
b) bonds	316 250	912 874
Adjustment from fair value hedge	**12 325**	**8 301**
Positive valuation of derivatives	**400 454**	**440 882**
Total	**729 029**	**1 429 543**

16b. Financial assets valued at fair value through profit and loss (held for trading) and adjustment from fair value hedge

	31.12.2011	31.12.2010
Trading financial assets	716 704	1 421 242
Adjustment from fair value hedge	12 325	8 301
Financial assets valued at fair value when initially recognized	0	0
Total	**729 029**	**1 429 543**

Information on financial assets collateralizing liabilities has been presented in Chapter XI.

16c. Debt securities valued at fair value through profit and loss, at balance sheet value

	31.12.2011	31.12.2010
- with fixed interest rate	288 423	749 240
- with variable interest rate	27 827	231 120
Total	**316 250**	**980 360**

16d. Debt securities valued at fair value through profit and loss (held for trading) by maturity

	31.12.2011	31.12.2010
to 1 month	46 723	0
above 1 month to 3 months	0	63 587
above 3 months to 1 year	156 812	569 631
above 1 year to 5 years	103 939	321 597
above 5 years	8 776	25 545
Total	**316 250**	**980 360**

16e. Change of debt securities and equity instruments valued at fair value through profit and loss (held for trading)

	01.01.2011 - 31.12.2011	01.01.2010 - 31.12.2010
Balance at the beginning of the period	980 360	2 320 318
Increases (purchase and accrual of interest and discount)	142 597 458	103 709 451
Reductions (sale and redemption)	(143 262 503)	(105 041 990)
Differences from valuation at fair value	935	(7 419)
Balance at the end of the period	**316 250**	**980 360**

Note 16 f / Note 27 Valuation of derivatives and: Adjustment from fair value hedge, Liabilities from short sale of securities as at 31.12.2011

	Par value of instruments with future maturity			Fair values		
	below 3 months	from 3 months to 1 year	above 1 year	Total	Assets	Liabilities
1. Interest rate derivatives	**5 828 492**	**8 225 406**	**8 751 242**	**4 770**	**259 122**	**254 352**
Forward Rate Agreements (FRA)	1 600 000	700 000	0	658	780	122
Interest rate swaps (IRS)	4 228 492	7 495 069	8 675 590	10 457	257 861	247 404
Other interest rate contracts: option, volatility swap, swap with FX option	0	30 337	75 652	(6 345)	481	6 826
2. FX derivatives *	**13 432 245**	**730 658**	**1 460 995**	**(173 153)**	**81 659**	**254 813**
FX contracts	1 760 954	351 370	134 005	(1 368)	12 012	13 380
FX swaps	11 249 427	372 357	0	(151 867)	65 462	217 329
Other FX contracts (CIRS)	421 865	0	1 326 990	(19 919)	4 133	24 052
FX options	0	6 931	0	0	52	52
3. Embedded instruments	**227 928**	**649 041**	**583 712**	**(43 108)**	**0**	**43 108**
Options embedded in deposits	219 720	590 841	242 265	(24 163)	0	24 163
Options embedded in securities issued	8 208	58 200	341 447	(18 945)	0	18 945
4. Indexes options	**276 853**	**697 991**	**586 012**	**46 778**	**59 673**	**12 895**
Valuation of derivatives, TOTAL	**19 765 518**	**10 303 096**	**11 381 961**	**(164 714)**	**400 454**	**565 168**
Valuation of hedged consumer loans portfolio					**12 325**	
Liabilities from short sale of securities						**9 250**

*Notional value for double-currency derivatives constitutes the sum of both transactions expressed in PLN

Note 16 g / Note 27 Valuation of derivatives and: Adjustment from fair value hedge, Liabilities from short sale of securities as at 31.12.2010

	Par value of instruments with future maturity			Fair values		
	below 3 months	from 3 months to 1 year	above 1 year	Total	Assets	Liabilities
1. Interest rate derivatives	**7 959 540**	**13 829 350**	**10 933 645**	**8 397**	**282 878**	**274 481**
Forward Rate Agreements (FRA)	4 550 000	7 300 000	0	(304)	1 346	1 650
Interest rate swaps (IRS)	3 409 540	6 521 623	10 785 153	12 032	278 434	266 402
Other interest rate contracts: volatility swap, swap with FX option	0	7 727	148 492	(3 331)	3 098	6 429
2. FX derivatives *	**10 402 553**	**5 310 499**	**4 359 678**	**(284 814)**	**83 823**	**368 637**
FX contracts	1 490 907	796 188	40 737	35 658	38 863	3 205
FX swaps	7 637 755	636 271	56 196	(186 357)	17 034	203 391
Other FX contracts (CIRS)	1 182 265	3 844 963	4 262 745	(134 622)	27 381	162 003
FX options	91 626	33 077	0	507	545	38
3. Commodity derivatives	**8 443**	**0**	**0**	**6**	**268**	**262**
Commodity forwards	8 443	0	0	6	268	262
4. Embedded instruments	**216 065**	**741 633**	**330 343**	**(47 880)**	**19 003**	**66 883**
Options embedded in deposits	200 402	688 215	0	(13 578)	19 003	32 581
Options embedded in securities issued	15 663	53 418	330 343	(34 302)	0	34 302
5. Indexes options	**196 531**	**755 308**	**210 040**	**51 498**	**54 910**	**3 412**
Valuation of derivatives, TOTAL	**18 783 133**	**20 636 790**	**15 833 706**	**(272 793)**	**440 882**	**713 675**
Valuation of hedged consumer loans portfolio					**8 301**	
Liabilities from short sale of securities						**91 290**

*Notional value for double-currency derivatives constitutes the sum of both transactions expressed in PLN

(17) DERIVATIVE AND HEDGING INSTRUMENTS

The Group uses the following types of hedge accounting:

- ✓ Hedge of the fair value of the portfolio of long-term consumer loans;
- ✓ Hedge of volatility of the cash flows generated by the portfolio of FX mortgage loans and the PLN deposits financing them;
- ✓ Hedge of volatility of the cash flows generated by the portfolio of FX mortgage loans with floating rate;
- ✓ Cash flow volatility hedge for the flow generated by future revenues and expenditures denominated in foreign currency

Starting from 1 January 2006 the Group established first formal hedging relationship against cash flow volatility. One should note that as from IFRS implementation, pursuant to IAS 39 the effect of valuation of all derivatives not classified as and not being effective hedges is presented in result from financial instruments valued at fair value through the profit and loss account. The employment of such methodology resulted in the lack of coherence in the manner of presentation of financial instruments in the profit and loss account. Net interest income from derivative transactions concluded in order to hedge FX liquidity from the economic point of view constitutes an interest margin component (allows to adjust interest income from FX loans to the cost of funding resulting from the zloty deposit portfolio). Implementation of formal hedge accounting permitted presentation of the transactions in the Profit and Loss Account in accordance with their economic meaning.

At the end of each month the Bank performs an assessment of effectiveness of the hedge used by analysing changes of fair value of the hedged instrument and the hedging instrument.

The table below presents detailed information regarding particular types of the hedge accounting, as at 31.12.2011:

	Hedging fair value of the portfolio of long-term consumer loans	**Cash flow volatility hedge for the flow generated by FX mortgage portfolio and its underlying PLN deposits**	**Cash flow volatility hedge for the flow generated by mortgage loans with floating rate, denominated in foreign currency**	**Cash flow volatility hedge for the flow generated by future revenues and expenditures denominated in foreign currency**
Description of hedge transactions	The Bank hedges the risk of the fair value of the long-term consumer loan portfolio denominated in PLN based on a fixed interest rate. The risk hedged results from interest rate fluctuations	The Bank hedges the risk of the volatility of cash flows generated by FX mortgages and by PLN deposits financially underlying such loans. The volatility of cash flows results from the currency risk and interest rate risk.	The Group hedges (in time horizon limited to maturity of hedging instruments) currency risk and interest rate risk resulted from volatility in cash flows generated by mortgage loans with floating rate denominated in foreign currency exchanging interests flow in foreign currency into PLN flows using FX SWAPS	The Group hedges FX risk resulted from future revenues and expenditures denominated in foreign currency by exchange of aforementioned flows into PLN ones.
Hedged items	Fixed rate PLN long-term consumer loan portfolio.	Cash flows resulting from the mortgage loan portfolio and PLN deposits funding them.	Cash flows resulting from mortgage loans with floating rate denominated in foreign currency.	Cash flows resulting from future revenues and expenditures denominated in foreign currency.
Hedging instruments	IRS transactions	CIRS transactions	FX Swap transactions	FX Forward transactions
Presentation of the result on the hedged and hedging transactions	adjustment to fair value of hedged assets and of the valuation of hedging instruments is recognised in profit and loss as result on financial instruments valued at fair value through profit and loss and foreign exchange result; interest on hedging and hedged instruments is recognised in net interest income	effective part of the valuation of hedging instruments is recognised in revaluation capital; interest on both the hedged and the hedging instruments is recognised in net interest income; valuation of hedging and hedged instruments on FX differences is recognised in the result on financial instruments valued at fair value through profit and loss and foreign exchange result	effective part of valuation of hedging instruments is recognised in revaluation reserve; interest from hedging instruments (settled Swap points) are recognised in the net interest income	effective part of spot revaluation of hedging instruments is recognised in revaluation reserve;

17a / 28. Hedge accounting	Par value of instruments with future maturity			Fair values			Adjustment to fair value of hedged items for hedged risk
As at 31.12.2011	**below 3 months**	**from 3 months to 1 year**	**above 1 year**	**Total**	**Assets**	**Liabilities**	
1. Fair value hedging derivatives connected with interest rate risk							
IRS contracts	1 047	242 361	1 157 080	(19 841)	195	20 036	12 325
2. Cash flows hedging derivatives connected with interest rate and/or FX rate							
CIRS contracts	2 985 885	6 458 508	26 826 634	(1 986 978)	89 392	2 076 369	x
FX SWAP contracts	6 210 676	5 321 754	0	(88 359)	41 050	129 409	x
Forward contracts	65 212	196 209	625 364	(72 285)	0	72 285	x
3. Total hedging derivatives	**9 262 820**	**12 218 832**	**28 609 078**	**(2 167 463)**	**130 636**	**2 298 099**	**x**

17a / 28. Hedge accounting	Par value of instruments with future maturity			Fair values			Adjustment to fair value of hedged items for hedged risk
As at 31.12.2010	**below 3 months**	**from 3 months to 1 year**	**above 1 year**	**Total**	**Assets**	**Liabilities**	
1. Fair value hedging derivatives connected with interest rate risk							
IRS contracts	0	300 000	1 535 709	(17 700)	2 193	19 893	8 301
2. Cash flows hedging derivatives connected with interest rate and/or FX rate							
CIRS contracts	2 849 615	5 811 116	22 018 810	(1 069 082)	78 038	1 147 120	x
FX SWAP contracts	3 707 902	360 196	0	(99 509)	0	99 509	x
Forward contracts	47 086	141 823	649 595	(48 799)	0	48 799	x
3. Total hedging derivatives	**6 604 603**	**6 613 134**	**24 204 114**	**(1 235 090)**	**80 231**	**1 315 321**	**x**

17b. Hedge accounting for cash flows

	31.12.2011	31.12.2010
Gross valuation recognized in revaluation reserve	126 719	(74 395)
Period in which cash flows with hedged value are expected to occur	od 01.01.12 do 08.06.22	od 01.01.11 do 08.06.22

Ineffective part of valuation of hedging instrument recognised in Profit and loss account in 2011 amounted to PLN -4.6 million (appropriately PLN -35.4 million in 2010).

(18) LOANS AND ADVANCES TO CUSTOMERS

18a. Loans and advances to customers

	31.12.2011	31.12.2010
Loans and advances	**37 984 890**	**33 367 286**
- to companies	6 438 670	5 231 100
- to private individuals	30 699 165	27 459 922
- to public sector	847 055	676 264
Receivables on account of payment cards	**880 549**	**895 822**
- due from companies	29 066	12 950
- due from private individuals	851 483	882 872
Purchased receivables	**1 828 853**	**2 252 838**
- from companies	1 766 232	2 201 417
- from public sector	62 621	51 421
Guarantees and sureties realised	234	255
Debt securities eligible for rediscount at Central Bank	17 573	32 204
Other	177	5 081
Interest	198 382	153 272
Total gross	**40 910 658**	**36 706 758**
Impairment write-offs	(1 078 603)	(1 028 761)
Total net	**39 832 055**	**35 677 997**

18b. Quality of loans and advances to customers portfolio

	31.12.2011	31.12.2010
Loans and advances to customers (gross)	**40 910 658**	**36 706 758**
- impaired	1 783 249	1 735 681
- not impaired	39 127 409	34 971 077
Impairment write-offs	**1 078 603**	**1 028 761**
- for impaired exposures	911 531	852 859
- for incurred but not reported losses (IBNR)	167 072	175 902
Loans and advances to customers (net)	**39 832 055**	**35 677 997**

18c. Loans and advances to customers portfolio by methodology of impairment assessment

	31.12.2011	31.12.2010
Loans and advances to customers (gross)	**40 910 658**	**36 706 758**
- case by case analysis	878 308	928 745
- collective analysis	40 032 350	35 778 013
Impairment write-offs	**1 078 603**	**1 028 761**
- on the basis of case by case analysis	355 939	364 056
- on the basis of collective analysis	722 664	664 705
Loans and advances to customers (net)	**39 832 055**	**35 677 997**

18d. Loans and advances to customers portfolio by customers

	31.12.2011	31.12.2010
Loans and advances to customers (gross)	**40 910 658**	**36 706 758**
- corporate customers	9 253 465	8 278 947
- individuals	31 657 193	28 427 811
Impairment write-offs	**1 078 603**	**1 028 761**
- for receivables from corporate customers	489 262	485 286
- for receivables from individuals	589 341	543 475
Loans and advances to customers (net)	**39 832 055**	**35 677 997**

18e. Loans and advances to customers by maturity

	31.12.2011	31.12.2010
Current accounts	2 399 217	2 224 822
to 1 month	237 652	360 195
above 1 month to 3 months	782 823	710 192
above 3 months to 1 year	2 718 663	2 825 237
above 1 year to 5 years	9 664 532	8 357 050
above 5 years	24 113 917	21 322 993
past due	795 471	752 998
Interest	198 382	153 272
Total gross	**40 910 658**	**36 706 758**

18f. Loans and advances to customers by currency

	31.12.2011	31.12.2010
in Polish currency	17 760 864	14 889 105
in foreign currencies (after conversion to PLN)	23 149 793	21 817 653
- currency: USD	386 996	367 837
- currency: EUR	782 770	1 015 864
- currency: CHF	21 822 969	20 146 446
- currency: JPY	156 867	287 400
- other currencies (PLN ‘000)	191	106
Total gross	**40 910 658**	**36 706 758**

18g. Change of impairment write-offs for loans and advances to customers

	01.01.2011 - 31.12.2011	01.01.2010 - 31.12.2010
Balance at the beginning of the period	**1 028 761**	**992 627**
Change in value of provisions:	49 842	36 134
Write-offs in the period	432 714	540 369
Amounts written off	(65 910)	(121 608)
Reversal of write-offs in the period	(278 074)	(403 209)
Write-offs decrease due to sale of receivables	(61 657)	0
Changes resulting from FX rates differences	22 563	20 582
Other	206	0
Balance at the end of the period	**1 078 603**	**1 028 761**

(19) INVESTMENT FINANCIAL ASSETS

19a. Investment financial assets available for sale

	31.12.2011	31.12.2010
Debt securities	**3 132 507**	**4 496 964**
Issued by State Treasury	1 927 780	3 355 513
a) bills	0	245 308
b) bonds	1 927 780	3 110 205
Issued by Central Bank	1 099 887	999 708
a) bills	1 099 887	999 708
b) bonds	0	0
Other securities	104 840	141 743
a) listed	0	8 342
b) not listed	104 840	133 401
Shares and interests in other entities	**1 078**	**10 883**
Total financial assets available for sale	**3 133 585**	**4 507 847**
Available for sale instruments listed on the stock exchange	1 927 780	3 373 686
Available for sale instruments not listed on the stock exchange	1 205 805	1 134 161

19b. Debt securities available for sale

	31.12.2011	31.12.2010
- with fixed interest rate	2 297 202	3 878 232
- with variable interest rate	835 305	618 732
Total	**3 132 507**	**4 496 964**

19c. Debt securities available for sale by maturity

	31.12.2011	31.12.2010
to 1 month	1 118 739	1 014 649
above 1 month to 3 months	0	17 922
above 3 months to 1 year	884 046	935 935
above 1 year to 5 years	1 084 371	2 480 078
above 5 years	45 351	48 380
Total	**3 132 507**	**4 496 964**

19d. Change of investment financial assets available for sale

	01.01.2011 - 31.12.2011	01.01.2010 - 31.12.2010
Balance at the beginning of the period	4 507 847	4 163 076
Increases (purchase and accrual of interest and discount)	80 717 859	75 588 404
Reductions (sale and redemption)	(82 076 341)	(75 227 362)
Difference from measurement at fair value	(15 781)	(10)
Impairment write-offs	0	(16 538)
Other	0	277
Balance at the end of the period	**3 133 585**	4 507 847

19e. Investments in associates

	31.12.2011	31.12.2010
Investments in associates	311 303	312 105

Company	Activity domain	Head office	% of the Group's capital share	% of the Group's voting share
MILLENNIUM LEASING Sp. z o.o.	leasing services	Warsaw	100	100
MILLENNIUM DOM MAKLERSKI S.A.	brokerage services	Warsaw	100	100
BBG FINANCE BV	funding companies from the Group	Rotterdam	100	100
MB FINANCE AB	funding companies from the Group	Stockholm	100	100
MILLENNIUM SERVICE Sp. z o.o.	general construction and engineering	Warsaw	100	100
TBM Sp. z o.o.	financial operations - equity markets, advisory services	Warsaw	45	45
MILLENNIUM TELECOMMUNICATION SERVICES Sp. z o.o.	financial operations - equity markets, advisory services	Warsaw	98	98
LUBUSKIE FABRYKI MEBLI S.A.	furniture manufacturer	Świebodzin	50	50
BG LEASING	leasing services	Gdańsk	74	74
PHCRS	wholesale market	Gdańsk	38,39	42,92

The only change in structure of related companies registered in 2011 took place in September 2011 - two entities conducting leasing activities remaining under common control of the Bank were merged (Millennium Leasing Sp. z o.o. - acquiring company and Millennium Lease Sp. z o.o. - acquired company, both units used to be 100% subsidiaries of the Bank).

19f. Associates as at 31.12.2011

Name	Business	Gross value of shares/ interests	Impairment write-offs	Additional capital paid in	Assets	Liabilities	Equity	Income	Profit / (Loss)	Relationship
MILLENNIUM LEASING Sp. z o.o.	Leasing	63 942	0	70 001	3 518 742	2 963 698	48 195	154 346	49 075	subordinated
MILLENNIUM DOM MAKLERSKI S.A.	Brokerage services	16 500	0	0	217 009	107 045	16 500	35 009	13 531	subordinated
BBG FINANCE BV	Funding companies from the Group	5 380	0	0	7 711	0	80	1 144	259	subordinated
MB FINANCE AB	Funding companies from the Group	247	0	0	663 864	663 145	247	259	60	subordinated
MILLENNIUM SERVICE Sp. z o.o.	General construction, civil engineering	1 000	0	143 000	418 832	0	1 000	82 099	1 649	subordinated
TBM Sp. z o.o.	Financial operations on equity market and advisory services	225	0	0	668	0	500	455	80	associated
LUBUSKIE FABRYKI MEBLI S.A.*	Furniture manufacturer	6 700	0	0	19 335	3 086	13 400	31 490	(461)	associated
PHCRS S.A.*	Wholesale market for groceries	8 200	(4 284)	0	72 033	60 372	21 357	11 231	443	associated
MILLENNIUM TELECOMMUNICATION SERVICES Sp. z o.o.	Financial operations on equity market and advisory services	98	0	294	599	0	100	826	108	subordinated
BG LEASING S.A. under bankruptcy	Leasing	900	(900)	0	The company is under bankruptcy					subordinated
Total investments in associates		**103 192**	**(5 184)**	**213 295**						

Millennium Dom Maklerski S.A., subsidiary of the Bank, is a 100% holder of Millennium TFI S.A. shares.
The above table does not include Orchis Sp. z o.o – the company being a special purpose vehicle (SPV) which is controlled by Millennium Leasing Sp. z o.o. as a result of securitisation transaction, despite lack of capital participation in mentioned company.

* data as at 30.11.2011; Despite having a majority shareholding of the Lubuskie Fabryki Mebli S.A., accordingly adopted an investment policy, the Bank actually affect neither financial nor operational policy of the company in order to achieve the economic benefits. As a result of aforementioned lack of control the Bank recognizes (based on IAS 28), this involvement as associate company.

19g. Associates as at 31.12.2010

Name	Business	Gross value of shares/ interests	Impairment write-offs	Additional capital paid in	Assets	Liabilities	Equity	Income	Profit / (Loss)	Relationship
MILLENNIUM LEASING Sp. z o.o.	Leasing	25 363	0	70 001	3 035 191	2 576 429	43 400	156 970	29 943	subordinated
MILLENNIUM LEASE Sp. z o.o.	Leasing	38 579	0	0	462 607	394 811	40 656	10 616	(3 277)	subordinated
MILLENNIUM DOM MAKLERSKI S.A.	Brokerage services	16 500	0	0	269 023	143 668	16 500	33 847	11 758	subordinated
BBG FINANCE BV	Funding companies from the Group	4 824	0	0	323 742	316 824	71	0	212	subordinated
MB FINANCE AB	Funding companies from the Group	221	0	0	683 720	682 853	221	0	68	subordinated
MILLENNIUM SERVICE Sp. z o.o.	General construction, civil engineering	1 000	0	143 000	159 396	0	1 000	74 890	5899	subordinated
TBM Sp. z o.o.	Financial operations on equity market and advisory services	225	0	0	713	0	500	394	77	associated
LUBUSKIE FABRYKI MEBLI S.A.	Furniture manufacturer	6 700	(1 700)	0	21 162	4 269	13 400	43 967	1 654	associated
PHCRS S.A.*	Wholesale market for groceries	8 200	(1 200)	0	76 279	64 480	21 357	9 835	(198)	associated
MILLENNIUM TELECOMMUNICATION SERVICES Sp. z o.o.	Financial operations on equity market and advisory services	98	0	294	456	0	100	691	94	subordinated
BG LEASING S.A. under bankruptcy	Leasing	900	(900)	0	The company is under bankruptcy					subordinated
Total investments in associates		**102 610**	**(3 800)**	**213 295**						

* data as at 30.11.2010

19h. Change of investments in associates

	01.01.2011 - 31.12.2011	01.01.2010 - 31.12.2010
Balance at the beginning of the period	312 105	262 288
Additional capital paid in	0	49 976
Impairment write-offs in the period	(1 384)	0
Differences in valuation of shares expressed in foreign currencies	582	(159)
Balance at the end of the period	**311 303**	**312 105**

(20) RECEIVABLES FROM SECURITIES WITH SELL-BACK CLAUSE

20. Receivables from securities bought with sell-back clause

	31.12.2011	31.12.2010
a) from banks	0	55 080
b) from clients	2 208	0
c) interest	1	5
Total	**2 209**	**55 085**

(21) PROPERTY, PLANT AND EQUIPMENT

21a. Property, plant and equipment

	31.12.2011	31.12.2010
Fixed assets:		
- land	1 271	1 356
- buildings, premises, civil and hydro-engineering structures	106 903	123 639
- machines and equipment	48 823	62 215
- vehicles	18 643	15 537
- other fixed assets	13 704	25 056
Fixed assets under construction	17 181	5 364
Total	**206 525**	**233 167**

21b. Change of balance of property, plant and equipment (by type groups) in the period 01.01.2011 - 31.12.2011

	land	buildings, premises, civil and hydro-engineering structures	machines and equipment	vehicles	other fixed assets	fixed assets under construction and advances	TOTAL
a) gross value of property, plant and equipment at the beginning of the period	**1 856**	**340 213**	**252 476**	**26 300**	**94 679**	**5 364**	**720 888**
b) increases (on account of)	**0**	**3 374**	**5 503**	**8 726**	**529**	**21 280**	**39 412**
- purchase	0	0	0	0	0	11 349	11 349
- transfer from fixed assets under construction	0	3 374	5 503	0	529	0	9 406
- transfer from financial leasing	0	0	0	8 726	0	6 444	15 170
- investment provisions	0	0	0	0	0	3 487	3 487
c) reductions (on account of)	**585**	**4 896**	**57 637**	**9 010**	**10 078**	**9 463**	**91 669**
- sale	66	0	1 915	409	1	0	2 391
- liquidation	0	117	48 722	0	2 751	0	51 590
- settlement of financial leasing agreement	0	0	0	0	0	9 406	9 406
- settlement of fixed assets under construction	0	553	108	8 425	210	0	9 296
- settlement of physical inventory	519	3 233	6 665	176	6 985	0	17 578
- other	0	993	227	0	131	57	1 408
d) gross value of property, plant and equipment at the end of the period	**1 271**	**338 691**	**200 342**	**26 016**	**85 130**	**17 181**	**668 631**
e) cumulated depreciation (amortization) at the beginning of the period	**0**	**192 689**	**190 261**	**10 763**	**68 248**	**0**	**461 961**
f) depreciation over the period (on account of)	**0**	**15 625**	**(38 742)**	**(3 390)**	**1 803**	**0**	**(24 704)**
- current write-off (P&L)		20 092	18 334	3 454	11 819	0	53 699
- reductions on account of sale	0	0	(1 883)	(409)	(1)	0	(2 293)
- reductions on account of liquidation	0	(117)	(48 447)	0	(2 737)	0	(51 301)
- settlement of financial leasing	0	(472)	(98)	(6 259)	(197)	0	(7 026)
- settlement of physical inventory	0	(3 065)	(6 460)	(176)	(6 967)	0	(16 668)
- other	0	(813)	(188)	0	(114)	0	(1 115)
g) cumulated depreciation (amortization) at the end of the period	**0**	**208 314**	**151 519**	**7 373**	**70 051**	**0**	**437 257**
h) impairment write-offs at the beginning of the period	**500**	**23 885**	**0**	**0**	**1 375**	**0**	**25 760**
- increase	0	0	0	0	0	0	0
- reduction	500	411		0	0	0	911
i) impairment write-offs at the end of the period	**0**	**23 474**	**0**	**0**	**1 375**	**0**	**24 849**
j) net value of property, plant and equipment at the end of the period	**1 271**	**106 903**	**48 823**	**18 643**	**13 704**	**17 181**	**206 525**
k) including finance lease	**0**	**55 203**	**31 314**	**18 643**	**9 265**	**1 541**	**115 965**

21c. Change of balance of property, plant and equipment (by type groups) in the period 01.01.2010 - 31.12.2010

	land	buildings, premises, civil and hydro-engineering structures	machines and equipment	vehicles	other fixed assets	fixed assets under construction and advances	TOTAL
a) gross value of property, plant and equipment at the beginning of the period	**1 856**	**347 295**	**258 845**	**30 207**	**92 395**	**10 979**	**741 577**
b) increases (on account of)	**0**	**5 097**	**10 885**	**102**	**5 002**	**12 135**	**33 221**
- purchase	0	0	0	0	0	8 914	8 914
- transfer from fixed assets under construction	0	3 254	8 939	0	4 417	0	16 610
- transfer from financial leasing	0	1 843	1 946	102	585	0	4 476
- investment provisions	0	0	0	0	0	3 214	3 214
- other	0	0	0	0	0	7	7
c) reductions (on account of)	**0**	**12 179**	**17 254**	**4 009**	**2 718**	**17 750**	**53 910**
- sale	0	4 812	1 947	0	571	715	8 045
- liquidation	0	2 309	14 370	102	1 868	0	18 649
- settlement of financial leasing agreement	0	328	29	3 780	187	0	4 324
- settlement of fixed assets under construction	0	0	0	0	0	16 610	16 610
- other	0	4 730	908	127	92	425	6 282
d) gross value of property, plant and equipment at the end of the period	**1 856**	**340 213**	**252 476**	**26 300**	**94 679**	**5 364**	**720 888**
e) cumulated depreciation (amortization) at the beginning of the period	**0**	**176 705**	**185 348**	**10 070**	**58 204**	**0**	**430 327**
f) depreciation over the period (on account of)	**0**	**15 984**	**4 913**	**693**	**10 044**	**0**	**31 634**
- current write-off (P&L)	0	24 788	21 925	3 996	12 621	0	63 330
- reductions on account of sale	0	(2 177)	(1 904)	0	(572)	0	(4 653)
- reductions on account of liquidation	0	(2 135)	(14 257)	(62)	(1 786)	0	(18 240)
- settlement of financial leasing	0	(114)	(18)	(3 019)	(57)	0	(3 208)
- other	0	(4 378)	(833)	(222)	(162)	0	(5 595)
g) cumulated depreciation (amortization) at the end of the period	**0**	**192 689**	**190 261**	**10 763**	**68 248**	**0**	**461 961**
h) impairment write-offs at the beginning of the period	**500**	**23 885**	**0**	**0**	**1 375**	**0**	**25 760**
- increase	0	0	0	0	0	0	0
- reduction	0	0	0	0	0	0	0
i) impairment write-offs at the end of the period	**500**	**23 885**	**0**	**0**	**1 375**	**0**	**25 760**
j) net value of property, plant and equipment at the end of the period	**1 356**	**123 639**	**62 215**	**15 537**	**25 056**	**5 364**	**233 167**
k) including finance lease	0	63 056	35 472	15 484	15 415	811	**130 239**

(22) INTANGIBLE ASSETS

22a. Intangible assets

	31.12.2011	31.12.2010
- concessions, patents, licenses, know how and similar assets, including:	31 895	29 798
- computer software	31 895	29 798
Total intangible assets	**31 895**	**29 798**

22b. Change of balance of intangible assets (by type groups) in the period 01.01.2011 - 31.12.2011

	concessions, patents, licenses, know how and similar assets, including:		TOTAL
		computer software	
a) gross value of intangible assets at the beginning of the period	**401 612**	**191 468**	**401 612**
b) increases (on account of)	**10 723**	**10 723**	**10 723**
- expenditures on intangible assets	6 673	6 673	6 673
- other (provision)	4 050	4 050	4 050
c) reductions (on account of)	**13 252**	**13 252**	**13 252**
- liquidation	13 252	13 252	13 252
d) gross value of intangible assets at the end of the period	**399 083**	**188 939**	**399 083**
e) cumulated depreciation (amortization) at the beginning of the period	**371 814**	**161 670**	**371 814**
f) depreciation over the period (on account of)	**(4 626)**	**(4 626)**	**(4 626)**
- current write-off (P&L)	8 626	8 626	8 626
- liquidation	(13 252)	(13 252)	(13 252)
g) cumulated depreciation (amortization) at the end of the period	**367 188**	**157 044**	**367 188**
h) impairment write-offs at the beginning of the period	**0**	**0**	**0**
i) impairment write-offs at the end of the period	**0**	**0**	**0**
j) net value of intangible assets at the end of the period	**31 895**	**31 895**	**31 895**

22c. Change of balance of intangible assets (by type groups) in the period 01.01.2010 - 31.12.2010

	concessions, patents, licenses, know how and similar assets, including:	computer software	TOTAL
a) gross value of intangible assets at the beginning of the period	**381 924**	**171 780**	**381 924**
b) increases (on account of)	**19 832**	**19 832**	**19 832**
- transfer from investments	26	26	26
- expenditures on intangible assets	18 637	18 637	18 637
- other (provision)	1 169	1 169	1 169
c) reductions (on account of)	**144**	**144**	**144**
- other	144	144	144
d) gross value of intangible assets at the end of the period	**401 612**	**191 468**	**401 612**
e) cumulated depreciation (amortization) at the beginning of the period	**363 466**	**153 322**	**363 466**
f) depreciation over the period (on account of)	**8 348**	**8 348**	**8 348**
- current write-off (P&L)	8 386	8 386	8 386
- other	(38)	(38)	(38)
g) cumulated depreciation (amortization) at the end of the period	**371 814**	**161 670**	**371 814**
h) impairment write-offs at the beginning of the period	**0**	**0**	**0**
i) impairment write-offs at the end of the period	**0**	**0**	**0**
j) net value of intangible assets at the end of the period	**29 798**	**29 798**	**29 798**

(23) NON-CURRENT ASSETS HELD FOR SALE

As of 31.12.2011 and 31.12.2010 the Bank did not classify any assets in the Fixed Assets for Sale category.

(24) DEFERRED INCOME TAX ASSETS

24a. Deferred income tax assets

	31.12.2011			31.12.2010		
	Deferred income tax asset	Deferred income tax provision	Net deferred income tax asset	Deferred income tax asset	Deferred income tax provision	Net deferred income tax asset
Difference between tax and balance sheet depreciation	7 243	0	7 243	7 688	0	7 688
Balance sheet valuation of financial instruments	668 692	(674 712)	(6 020)	430 800	(433 904)	(3 104)
Unrealised receivables/ liabilities on account of derivatives	86 083	(112 753)	(26 670)	75 433	(90 019)	(14 586)
Interest on deposits and securities to be paid/ received	52 288	(78 615)	(26 327)	41 535	(77 334)	(35 799)
Interest and discount on loans and receivables		(19 975)	(19 975)	2 447	(19 577)	(17 130)
Income and cost settled at effective interest rate	5 510	(4 224)	1 286	6 935	(7 114)	(179)
Provisions for loans presented as temporary differences	131 992	0	131 992	135 004	0	135 004
Employee benefits	10 507	0	10 507	9 650	0	9 650
Provisions for future costs	14 261	0	14 261	6 323	0	6 323
Valuation of investment assets and cash flows hedge recognized in revaluation reserve	652	(24 077)	(23 425)	14 135	(2 347)	11 788
Other	5 005	(1 127)	3 878	4 560	(1 408)	3 152
Net deferred income tax asset	**982 233**	**(915 483)**	**66 750**	**734 510**	**(631 703)**	**102 807**

24b. Change of temporary differences

	31.12.2010	Changes to financial result	Changes to equity	31.12.2011
Difference between tax and balance sheet depreciation	7 688	(445)		7 243
Balance sheet valuation of financial instruments	(3 104)	(2 916)		(6 020)
Unrealised receivables/ liabilities on account of derivatives	(14 586)	(12 084)		(26 670)
Interest on deposits and securities to be paid/ received	(35 799)	9 472		(26 327)
Interest and discount on loans and receivables	(17 130)	(2 845)		(19 975)
Income and cost settled at effective interest rate	(179)	1 465		1 286
Provisions for loans presented as temporary differences	135 004	(3 012)		131 992
Employee benefits	9 650	857		10 507
Provisions for future costs	6 323	7 938		14 261
Valuation of investment assets and cash flows hedge recognized in revaluation reserve	11 788		(35 213)	(23 425)
Other	3 152	726		3 878
Total	**102 807**	**(844)**	**(35 213)**	**66 750**

24c. Change of temporary differences

	31.12.2009	Changes to financial result	Changes to equity	31.12.2010
Difference between tax and balance sheet depreciation	7 983	(295)		7 688
Balance sheet valuation of financial instruments	(3 012)	(92)		(3 104)
Unrealised receivables/ liabilities on account of derivatives	(12 646)	(1 940)		(14 586)
Interest on deposits and securities to be paid/ received	(7 796)	(28 003)		(35 799)
Interest and discount on loans and receivables	(20 000)	2 870		(17 130)
Income and cost settled at effective interest rate	(6 819)	6 640		(179)
Provisions for loans presented as temporary differences	138 535	(3 531)		135 004
Employee benefits	7 721	1 929		9 650
Provisions for future costs	3 652	2 671		6 323
Valuation of investment assets and cash flows hedge recognized in revaluation reserve	(2 627)	0	14 415	11 788
Other	(2 331)	5 483		3 152
Total	**102 660**	**(14 268)**	**14 415**	**102 807**

24d. Change of deferred income tax

	1.01.2011 - 31.12.2011	1.01.2010 - 31.12.2010
Difference between tax and balance sheet depreciation	(445)	(295)
Balance sheet valuation of financial instruments	(2 916)	(92)
Unrealised receivables/ liabilities on account of derivatives	(12 084)	(1 940)
Interest on deposits and securities to be paid/ received	9 472	(28 003)
Interest and discount on loans and receivables	(2 845)	2 870
Income and cost settled at effective interest rate	1 465	6 640
Provisions for loans presented as temporary differences	(3 012)	(3 531)
Employee benefits	857	1 929
Provisions for future costs	7 938	2 671
Tax loss deductible in the future	0	0
Other	726	5 483
Change of deferred income tax recognized in financial result	(844)	(14 268)
Valuation of investment assets and cash flows hedge recognized in revaluation reserve	(35 213)	14 415

24e. Negative temporary differences for which the deferred income tax asset was not recognised in the balance sheet

Temporary differences expiry year	31.12.2011	31.12.2010
Unlimited	9 612	9 612
Total	**9 612**	**9 612**

In accordance with IAS 12, the Bank offset deferred income tax assets with deferred income tax liabilities.

	31.12.2011	31.12.2010
Net deferred income tax assets	66 750	102 807
Net deferred income tax provision	-	-
Total	**66 750**	**102 807**

(25) OTHER ASSETS

25. Other assets

	31.12.2011	31.12.2010
Expenses to be settled	276 355	27 855
Income to be received	8 404	7 201
Interbank settlements	13 750	19 542
Settlements of financial instruments transactions	25 865	2
Receivables from sundry debtors	88 431	35 135
Settlements with the State Treasury	1 330	2 284
Total other assets (gross)	414 135	**92 019**
Provisions	(9 103)	(9 798)
Total other assets (net)	**405 032**	**82 221**

(26) DEPOSITS FROM BANKS

26a. Deposits from banks

	31.12.2011	31.12.2010
In current account	146 393	54 328
Term deposits	163 486	139 573
Loans and advances received	1 210 840	1 888 384
Interest	1 687	2 171
Total	**1 522 406**	**2 084 456**

26b. Deposits from banks by maturity

	31.12.2011	31.12.2010
Current accounts	146 393	54 328
to 1 month	162 827	138 801
above 1 month to 3 months	599	538
above 3 months to 1 year	41	792 294
above 1 year to 5 years	1 073 038	905 690
above 5 years	137 822	190 634
Interest	1 687	2 171
Total	**1 522 406**	**2 084 456**

The balance of liabilities towards banks with maturities above 5 years results from the long-term loan agreements concluded by the Bank with the European Investment Bank.

26c. Deposits from banks by currency

	31.12.2011	31.12.2010
in Polish currency	608 509	436 831
in foreign currencies (after conversion to PLN)	913 897	1 647 625
- currency: USD	25 150	29 650
- currency: EUR	888 747	1 617 975
Total	**1 522 406**	**2 084 456**

The reduction of the balance of liabilities to banks, denominated in EUR in 2011, resulted mainly from repayment by the Bank of loan amounting to EUR 200 million.

(27) FINANCIAL LIABILITIES VALUED AT FAIR VALUE THROUGH PROFIT AND LOSS

27. Financial liabilities valued at fair value through profit and loss (held for trading)

	31.12.2011	31.12.2010
Negative valuation of derivatives	565 168	713 675
Short sale of securities	9 250	91 290
Financial liabilities valued at fair value through profit and loss	**574 418**	**804 965**

The breakdown of the negative valuation of derivatives into individual instruments has been presented in note ***(16).***

(28) DERIVATIVE HEDGING INSTRUMENTS

The information can be found in note ***(17) DERIVATIVE HEDGING INSTRUMENTS***

(29) DEPOSITS FROM CUSTOMERS

29a. Structure of deposits from customers by type

	31.12.2011	31.12.2010
Amounts due to private individuals	**22 906 106**	**20 784 845**
Balances on current accounts	7 234 168	7 097 957
Term deposits	15 354 993	13 368 776
Other	124 686	158 733
Accrued interest	192 259	159 379
Amounts due to companies	**13 121 962**	**12 698 621**
Balances on current accounts	3 218 802	3 161 605
Term deposits	9 628 032	9 324 381
Other	215 654	174 443
Accrued interest	59 474	38 192
Amounts due to public sector	**1 521 734**	**2 042 373**
Balances on current accounts	714 705	855 925
Term deposits	770 357	1 149 996
Other	34 093	31 990
Accrued interest	2 579	4 462
Total	**37 549 802**	**35 525 839**

29b. Deposits from customers by maturity

	31.12.2011	31.12.2010
Current accounts	11 167 675	11 115 487
to 1 month	10 558 239	10 852 537
above 1 month to 3 months	10 312 554	6 664 765
above 3 months to 1 year	4 375 830	5 622 177
above 1 year to 5 years	867 044	1 068 675
above 5 years	14 148	165
Interest	254 312	202 033
Total	**37 549 802**	**35 525 839**

29c. Deposits from customers by currency

	31.12.2011	31.12.2010
in Polish currency	35 501 552	33 728 696
in foreign currencies (after conversion to PLN)	2 048 250	1 797 143
- currency: USD	647 214	555 424
- currency: EUR	1 284 442	1 151 732
- currency: GBP	84 179	71 045
- currency: CHF	26 195	15 537
- other currencies (PLN ‘000)	6 219	3 405
Total	**37 549 802**	**35 525 839**

(30) LIABILITIES FROM SECURITIES SOLD WITH BUY-BACK CLAUSE

30. Liabilities from securities sold with buy-back clause

	31.12.2011	31.12.2010
a) to the Central Bank	0	0
b) to banks	1 099 422	300 000
c) to customers	516 711	373 438
d) interest	6 202	756
Total	**1 622 335**	**674 194**

(31) DEBT SECURITIES

31a. Debt securities

	31.12.2011	31.12.2010
Outstanding bonds and bills	153 862	296 423
Bank Securities	240 913	88 114
Interest	0	0
Total	**394 775**	**384 537**

31b. Debt securities

	31.12.2011	31.12.2010
to 1 month	7 973	0
above 1 month to 3 months	8 187	13 804
above 3 months to 1 year	56 644	56 799
above 1 year to 5 years	321 971	313 934
above 5 years	0	0
Interest	0	0
Total	**394 775**	**384 537**

In 2011 the Bank changed a method of presentation of financial data in the area of classification of the liabilities from debt securities split by maturity. These changes concern the grouping of financial data and in view of the financial statements affect only the presentation of information in above note. In order to maintain comparability of financial information appropriate changes in the presentation of financial data for 2010 have been made in relation to previously published data in the financial statements for year 2010.

31c. Change of debt securities

	01.01.2011 - 31.12.2011	01.01.2010 - 31.12.2010
Balance at the beginning of the period	384 537	262 466
Increases, on account of:	203 084	201 324
- issue of bonds	6 738	113 210
- issue of Bank Securities	196 346	88 114
Reductions, on account of:	(192 846)	(79 253)
- repurchase of bonds	(149 299)	(79 253)
- repurchase of Bank Securities	(43 547)	0
Balance at the end of the period	**394 775**	**384 537**

31d. Debt securities by type

As at 31.12.2011	Balance sheet value	Interest rate *	Final legal maturity	Market
BM_2012/01,A,B,C	7 973	-	2012-01-03,04,10,12	-
BM_2012/02,A,B	8 187	-	2012-02-01,02	-
BM_2012/04,A,B,C	12 159	-	2012-04-10,11,12	-
BM_2012/05	347	-	2012-05-09	-
BM_2012/06	4 226	-	2012-06-11	-
BM_2012/07,A	6 131	-	2012-07-06,09	-
BM_2012/08,A	6 922	-	2012-08-08	-
BM_2012/09,A,B,C,D,E	13 710	-	2012-09-06,07,10,11,12	-
BM_2012/11,A,B,C	13 148	-	2012-11-02,05,06,07	-
BM_2013/02,A	13 073	-	2013-02-07,08	-
BM_2013/03,A,B,C,D	14 802	-	2013-03-04,05,06,07,08	-
BM_2013/04,A,B	9 203	-	2013-04-03,04,08	-
BM_2013/05,A,B,C	14 080	-	2013-05-08,09,10	-
BM_2013/06,A,B	15 485	-	2013-06-03,06,07	-
BM_2013/10,A	2 100	-	2013-10-07,08	-
BM_2014/01,A	6 198	-	2014-01-06,07	-
BM_2014/04	6 119	-	2014-04-04	-
BPW_2013/02	10 864	-	2013-02-04	-
BPW_2013/03	13 014	-	2013-03-04	-
BPW_2013/07,A,B	17 731	-	2013-07-08,09,31	-
BPW_2013/08	12 634	-	2013-08-02	-
BPW_2013/09,A	14 488	-	2013-09-09,30	-
BPW_2013/10,A	28 298	-	2013-10-04,31	-
BPW_2013/11,A,B	40 416	-	2013-11-04,29	-
BPW_2013/12,A	28 013	-	2013-12-02,31	-
BPW_2014/01	9 067	-	2014-01-03	-
BPW_2014/04	9 148	-	2014-04-02	-
BPW_2014/05	7 625	-	2014-05-02	-
BPW_2014/06	13 186	-	2014-06-02	-
BPW_2014/07	16 432	-	2014-07-03	-
BPW_2014/09	15 846	-	2014-09-03	-
BPW_2015/01	4 150	-	2015-01-05	-
TOTAL	**394 775**			

* In case of bonds issued by the Bank, their interest formula assumes their calculation on the basis of underlying indexes on maturity date.

31e. Debt securities by type

As at 31.12.2010	Balance sheet value	Interest rate *	Final legal maturity	Market
BM_2011/02	1 581	-	2011-02-25	-
BM_2011/03,_1,_2	12 223	-	2011-03-31,14,15	-
BM_2011/04,A	9 231	-	2011-04-15,01	-
BM_2011/05,A	14 703	-	2011-05-12,31	-
BM_2011/10,A,B	19 610	-	2011-10-04,04,05	-
BM_2011/11,A	6 558	-	2011-11-08,07	-
BM_2011/12	1 456	-	2011-12-16	-
BM_2012/01,A,B,C	16 843	-	2012-01-03,04,10,12	-
BM_2012/02,A,B	14 689	-	2012-02-02,01,02	-
BM_2012/04,A,B,C	20 993	-	2012-04-10,10,11,12	-
BM_2012/05	1 019	-	2012-05-09	-
BM_2012/06	4 383	-	2012-06-11	-
BM_2012/07,A	16 735	-	2012-07-06,09	-
BM_2012/08,A	12 493	-	2012-08-08,08	-
BM_2012/09,A,B,C,D,E	17 192	-	2012-09-06,07,10,10,11,12	-
BM_2012/11,A,B,C	15 211	-	2012-11-06,07,02,05	-
BM_2012/12,A,B	15 076	-	2012-12-10,11,12	-
BM_2013/02,A	14 659	-	2013-02-07,08	-
BM_2013/03,A,B,C,D	21 416	-	2013-03-07,08,04,05,06	-
BM_2013/04,A,B	9 107	-	2013-04-08,03,04	-
BM_2013/05,A,B,C	15 467	-	2013-05-08,09,09,10	-
BM_2013/06,A,B	18 429	-	2013-06-03,06,07	-
BM_2013/10,A	6 038	-	2013-10-07,08	-
BM_2014/01,A	11 312	-	2014-01-06,07	-
BPW_2011/10	5 240	-	2011-10-05	-
BPW_2013/07,A	13 297	-	2013-07-08,09	-
BPW_2013/08	14 680	-	2013-08-02	-
BPW_2013/09	8 932	-	2013-09-09	-
BPW_2013/10	11 168	-	2013-10-04	-
BPW_2013/11	8 747	-	2013-11-04	-
BPW_2013/12	15 328	-	2013-12-02	-
BPW_2014/01	10 722	-	2014-01-03	-
TOTAL	**384 537**			

* In case of bonds issued by the Bank, their interest formula assumes their calculation on the basis of underlying indexes on maturity date.

(32) PROVISIONS

32a. Provisions

	31.12.2011	31.12.2010
Provision for off-balance sheet commitments	22 271	14 273
Provision for contentious claims	12 699	6 230
Total	**34 970**	**20 503**

32b. Change of provisions

Provision for off-balance sheet commitments	01.01.2011 - 31.12.2011	01.01.2010 - 31.12.2010
Balance at the beginning of the period	14 273	18 384
Charge of provision	17 226	7 743
Release of provision	(9 228)	(11 741)
FX rates differences	0	(113)
Balance at the end of the period	**22 271**	**14 273**

Provision for contentious claims		
Balance at the beginning of the period	6 230	4 812
Charge of provision	11 134	2 645
Release of provision	(4 138)	(735)
Utilisation of provision	(527)	(492)
Balance at the end of the period	**12 699**	**6 230**

(33) DEFERRED INCOME TAX PROVISION

	31.12.2011	31.12.2010
33. Deferred income tax provision	**0**	**0**

(34) OTHER LIABILITIES

34a. Other liabilities

	31.12.2011	31.12.2010
Short-term	**621 262**	**390 799**
Accrued costs - bonuses, salaries	42 799	44 957
Accrued costs - other	85 339	45 621
Interbank settlements	223 208	74 640
Settlements of financial instruments transactions	0	34 797
Other creditors	102 332	84 828
Liabilities from financial leasing	12 348	26 415
Liabilities to public sector	10 325	13 218
Deferred income	93 821	53 198
Provisions for unused employee holiday	7 629	4 513
Other	43 461	8 612
Long-term	**71 786**	**121 418**
Provisions for retirement benefits	8 135	7 165
Liabilities from financial leasing	63 651	114 253
Total	**693 048**	**512 217**

The Bank is a lessee in financial leasing agreements concerning the car fleet as well as office space and equipment, signed with the Bank's subsidiaries - Millennium Leasing Sp. z o.o. and Millennium Service Sp. z o.o. The Bank carries the property in the financial lease as fixed assets.

34b. Liabilities from financial leasing

	31.12.2011	31.12.2010
Liabilities from financial leasing (gross)	88 969	166 845
Unrealised financial costs	(12 970)	(26 177)
Current value of minimum leasing instalments	**75 999**	**140 668**
Liabilities from financial leasing (gross) by maturity		
Under 1 year	14 821	33 643
From 1 year to 5 years	47 180	90 628
Above 5 years	26 968	42 574
Total	**88 969**	**166 845**
Liabilities from financial leasing (net) by maturity		
Under 1 year	12 348	26 415
From 1 year to 5 years	38 429	74 240
Above 5 years	25 222	40 013
Total	**75 999**	**140 668**

34c. Change of provisions for unused employee holiday

	01.01.2011 - 31.12.2011	01.01.2010 - 31.12.2010
Balance at the beginning of the period	**4 513**	**5 809**
Charge of provisions/ reversal of provisions	3 501	(1 024)
Utilization of provisions	(385)	(272)
Balance at the end of the period	**7 629**	**4 513**

34d. Change of provisions for retirement benefits

	01.01.2011 - 31.12.2011	01.01.2010 - 31.12.2010
Balance at the beginning of the period	**7 165**	**5 844**
Charge of provisions/ reversal of provisions	1 184	1 461
Utilization of provisions	(214)	(140)
Balance at the end of the period	**8 135**	**7 165**

(35) SUBORDINATED DEBT

35a. Subordinated debt

	31.12.2011	31.12.2010
Name of entity	BBG FINANCE B.V.	BBG FINANCE B.V.
Currency of the liability	EUR	EUR
Value of the liability in foreign currency	0	80 000
Value of the liability in PLN	0	316 824
Interest rate	-	3,384%
Maturity	-	12.12.2011 r.
Interest	0	566
Balance sheet value of subordinated debt	**0**	**317 390**

35a. Subordinated debt

	31.12.2011	31.12.2010
Name of entity	MB FINANCE A.B.	MB FINANCE A.B.
Currency of the liability	EUR	EUR
Value of the liability in foreign currency	150 000	150 000
Value of the liability in PLN	662 520	594 045
Interest rate	3,207%	2,794%
Maturity	20.12.2017 r.	20.12.2017 r.
Interest	708	553
Balance sheet value of subordinated debt	**663 228**	**594 598**

35b. Change of subordinated debt

	01.01.2011 - 31.12.2011	01.01.2010 - 31.12.2010
Balance at the beginning of the period	911 988	945 795
Increases, on account of:	145 284	25 770
- FX rates differences	113 691	0
- interest accrual	31 593	25 770
Reductions, on account of:	(394 044)	(59 577)
- interest payment	(32 004)	(25 560)
- FX rates differences	0	(34 017)
- repayment of subordinated debt	(362 040)	0
Balance at the end of the period	**663 228**	**911 988**

In the course of 2011 and 2010 the Bank did not record any delays in making principal or interest payments, nor did it breach any other contractual provisions resulting from its subordinated liabilities.

In December 2011, in accordance with contractual terms, the Bank made a repayment of subordinated debt in relation to company BBG FINANCE B.V. in the amount of EUR 80 million.

(36) SHAREHOLDERS' EQUITY

36a. SHARE CAPITAL

The share capital of the Bank Millennium S.A. is PLN 1,213,116,777 divided into 1,213,116,777 shares of PLN 1 par value each, as presented by the table below.

SHARE CAPITAL Par value of one share = 1 PLN

Series / issue	Share type	Type of preference	Number of shares	Value of series/issue	Manner of capital coverage	Registration date	Right to dividend
A	registered founder	x2 as to voting	106 850	106 850	cash	30.06.1989	30.06.1989
B1	registered ordinary		150 000	150 000	cash	13.06.1990	01.01.1990
B2	registered ordinary		150 000	150 000	cash	13.12.1990	01.01.1990
C	bearer ordinary		4 693 150	4 693 150	cash	17.05.1991	01.01.1991
D1	bearer ordinary		1 700 002	1 700 002	cash	31.12.1991	01.01.1992
D2	bearer ordinary		2 611 366	2 611 366	cash	31.01.1992	01.01.1992
D3	bearer ordinary		1 001 500	1 001 500	cash	10.03.1992	01.01.1992
E	bearer ordinary		6 000 000	6 000 000	cash	28.05.1993	01.01.1992
F	bearer ordinary		9 372 721	9 372 721	cash	10.12.1993	01.01.1993
G	bearer ordinary		8 000 000	8 000 000	cash	30.05.1994	01.10.1993
H	bearer ordinary		7 082 129	7 082 129	cash	24.10.1994	01.10.1994
Increasing of par value of shares from 1 to 4 PLN				122 603 154	surplus	24.11.1994	
1:4 split			122 603 154			5.12.1994	
I	bearer ordinary		65 000 000	65 000 000	cash	12.08.1997	01.10.1996
J	bearer ordinary		196 120 000	196 120 000	capitals of Bank Gdański S.A.	12.09.1997	01.10.1996
K	bearer ordinary		424 590 872	424 590 872	cash	31.12.2001	01.01.2001
L	bearer ordinary		363 935 033	363 935 033	cash	26.02.2010	01.01.2009
Total number of shares			1 213 116 777				
Total share capital				1 213 116 777			

In the reporting period a conversion of shares into the bearer shares was registered. As of 31.12.2011 the number of registered shares was 109 316, of which 62 200 are founders' shares, privileged so that one share entitles to two votes at the Annual General Meeting.

In connection with implementation of resolution No. 2 of the Extraordinary General Meeting of 3 December 2009 as well as resolution No. 5/2010 of the Management Board of the Bank dated 13 January 2010 on increasing initial capital through an issue of ordinary bearer shares, the L-series share issue took place. On 26 February 2010 the Court registered the Bank's share capital increase from PLN 849,181,744 up to PLN 1,213,116,777 and respective change in Bank's Statute.

Because the Bank is a public company whose shares are traded on the WSE primary market, the Bank has no detailed information about the shareholding structure as of December 31, 2011. Information on the Bank's shareholding structure presented in the table below is given on the basis of information contained in the notices sent to the shareholders of the Bank, pursuant to Article. 69 of the Act on Public Offering, the conditions for introducing financial instruments to organized trading, and public companies, or on the basis of information provided by shareholders in the registration at the AGM of the Bank, as far as possible aforementioned sources are updated based on public information. The largest shareholders of the Group's parent entity – the Bank - (above 5% share in the vote at the General Shareholders Meetings) were as follows:

Shareholders as at 31.12.2011

Shareholder	**Number of shares**	***% share in share capital***	***Number of votes***	***% share in votes at Shareholders' Meeting***
Banco Comercial Portugues S.A.	794 751 136	65.51	794 751 136	65.51
ING Otwarty Fundusz Emerytalny	60 762 472	5.01	60 762 472	5.01

Shareholders as at 31.12.2010

Shareholder	**Number of shares**	***% share in share capital***	***Number of votes***	***% share in votes at Shareholders' Meeting***
Banco Comercial Portugues S.A.	794 751 136	65.51	794 751 136	65.51
AVIVA Otwarty Fundusz Emerytalny Aviva BZ WBK*	61 341 239	5.06	61 341 239	5.06

* On 18 January 2011, the shareholder has informed the Bank on reduction the number of shares held below 5% of the share capital of the Bank

36b. REVALUATION CAPITAL

The revaluation capital of the Bank is generated in result of recognizing:

- ✓ result of valuation (at fair value) of financial assets available for sale at their net value, i.e. after deferred tax. The above items are deducted from the revaluation capital when all or some of the valued assets are taken out of the books or at the moment of recognising impairment (the result of the valuation is then recognized in the profit and loss account),
- ✓ result of valuation (at fair value) of derivative instruments hedging cash flows at their net value, i.e. after deferred tax. The revaluation capital contains the part of profits or losses related to the instrument hedging the cash flows, which is an effective hedge, while the ineffective part of profits or losses on the instrument is posted in the profit and loss account.

Revaluation reserve

	31.12.2011	**31.12.2010**
Effect of valuation (gross)	123 291	(62 044)
Deferred income tax	(23 425)	11 788
Net effect of valuation	**99 865**	**(50 256)**

Sources of the revaluation capital evolution are as follows (data in PLN thousands):

Revaluation reserve on available for sale financial assets 1.01.2011 - 31.12.2011

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	**12 352**	**(2 347)**	**10 005**
Transfer to income statement of the period as a result of sale	(5 021)	954	(4 067)
Change of capitals connected with maturity of securities	(3 819)	726	(3 093)
Profit/loss on revaluation of available for sale financial assets, recognized in equity	(6 941)	1 319	(5 623)
Revaluation reserve at the end of the period	**(3 429)**	**651**	**(2 778)**

Revaluation reserve on available for sale financial assets 1.01.2010 - 31.12.2010

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	**12 363**	**(2 349)**	**10 014**
Transfer to income statement of the period as a result of sale	(6 372)	1 211	(5 162)
Change of capitals connected with maturity of securities	(3 735)	710	(3 026)
Profit/loss on revaluation of available for sale financial assets, recognized in equity	10 097	(1 918)	8 179
Revaluation reserve at the end of the period	**12 352**	**(2 347)**	**10 005**

Revaluation reserve on cash flows hedge financial instruments 1.01.2011 - 31.12.2011

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	**(74 395)**	**14 135**	**(60 260)**
Profit/loss on valuation of hedging instrument, recognized in revaluation reserve during the period – for instruments designated for hedge in the reporting period	59 536	(11 312)	48 224
Profit/loss on valuation of hedging instrument, recognized in revaluation reserve during the period - for instruments designated for hedge before the reporting period	141 579	(26 900)	114 679
Revaluation reserve at the end of the period	**126 720**	**(24 077)**	**102 643**

Revaluation reserve on cash flows hedge financial instruments 1.01.2010 - 31.12.2010

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	**1 463**	**(278)**	**1 185**
Profit/loss on valuation of hedging instrument, recognized in revaluation reserve during the period – for instruments designated for hedge in the reporting period	(128 252)	24 368	(103 884)
Profit/loss on valuation of hedging instrument, recognized in revaluation reserve during the period - for instruments designated for hedge before the reporting period	52 394	(9 955)	42 439
Revaluation reserve at the end of the period	**(74 395)**	**14 135**	**(60 260)**

36c. Retained earnings

	Supplementary capital	Reserve capital	General banking risk fund	Retained earnings	TOTAL
Retained earnings at the beginning of the period 01.01.2011	**374 957**	**581 042**	**228 902**	**321 042**	**1 505 943**
- appropriation of profit, including:	0	199 730	0	(321 042)	**(121 312)**
- transfer to reserve capital	0	199 730	0	(199 730)	**0**
- dividend paid for 2010	0	0	0	(121 312)	**(121 312)**
- net profit/ (loss) of the period	0	0	0	415 342	**415 342**
Retained earnings at the end of the period 31.12.2011	**374 957**	**780 772**	**228 902**	**415 342**	**1 799 973**

36d. Retained earnings

	Supplementary capital	Reserve capital	General banking risk fund	Retained earnings	TOTAL
Retained earnings at the beginning of the period 01.01.2010	**374 957**	**496 927**	**228 902**	**84 115**	**1 184 901**
- appropriation of profit, including:	0	84 115	0	(84 115)	**0**
- transfer to reserve capital	0	84 115	0	(84 115)	**0**
- net profit/ (loss) of the period	0	0	0	321 042	**321 042**
Retained earnings at the end of the period 31.12.2010	**374 957**	**581 042**	**228 902**	**321 042**	**1 505 943**

VIII. 2011 DIVIDEND

Bank Millennium has a dividend policy of distributing 35% to 50% of net profit as dividend. However, following to the recent Financial Supervision Commission's (KNF) recommendation, the Management Board of Bank Millennium will propose to retain entire 2011 profit in the equity.

IX. RECLASSIFICATION OF DEBT SECURITIES

In 2008 the Bank reclassified WZ0911 seven-year floating-rate Treasury bonds from the portfolio "held for trading" to the portfolio "available for sale". This change of classification was possible based on the amendment of IAS MSR 39 and IFRS 7, implemented by virtue of Regulation No. 1004/2008 of the Commission of the European Communities of 15 October 2008. Under the invoked standard the reclassification was done at fair value – the valuation losses recognised in the Profit and Loss Account until the moment of reclassification were not reversed and the fair value of the instrument on the day of reclassification constituted new cost of acquisition. The premise justifying the above reclassification (resulting from IAS 39.50B) was change of intention to keep these securities in the Bank's portfolio; realisation of short-term gains on the investment ceased to be possible due to changes in the market situation.

The below data constitute the fulfilment of the information duties referring to the above mentioned transactions, which imply from provisions of MSSF 7:

Name	WZ0911
Notional value as at reclassification date	PLN 120,000,000
Book value as at reclassification date	PLN 119,132,400
Interest rate as at reclassification date	6.64%

Data in PLN ths.	Valuation recognized in P&L (with tax effect)	Valuation recognized in revaluation reserve (with tax effect)	Total effect recognized in equity
Year 2007			
Before reclassification in "trading" portfolio	(3)	-	(3)
Year 2008			
Before reclassification in "trading" portfolio	(1 016)	-	(1 016)
After reclassification in "available for sale" portfolio		(2 509)	(2 509)
TOTAL 2008	(1 016)	(2 509)	(3 525)
Year 2009			
After reclassification in "available for sale" portfolio	-	(461)	(1 477)
Year 2010			
After reclassification in "available for sale" portfolio	-	274	(742)
May 2011			
After reclassification in "available for sale" portfolio	-	119	(897)
May 2011 (proforma)			
If the reclassification did not occur	(155)	-	(897)

On June 3, 2011 the Bank made the sale of aforementioned securities realizing a profit of PLN 133 thousand.

X. FAIR VALUE

The best reflection of fair value of financial instruments is their market value. In case of many products and transactions with unavailable market value, fair value must be estimated with use of internal models based on discounting cash flows.

Cash flows for various instruments are determined in accordance with their individual characteristics and the discounting factors take into consideration the changes over time of both interest rates as well as margins.

All estimation models are arbitrary to some extent and this is why they reflect only the value of those instruments, for which they were built. In these circumstances the presented differences between fair values and balance-sheet values cannot be understood to mean adjustments of the economic value of Bank.

The main assumptions and methods applied in estimating fair value of assets and liabilities of the Group are as follows:

Receivables and liabilities with respect to banks (structured contract)

This is a transaction, which comprises the simultaneous purchase of a long-term zero-coupon bond and the taking-out of a long-term fixed-rate loan from the issuer of the bond.

The fair value of both sides of the transaction has been estimated by discounting the related cash flows on maturity/due date with use of the current zero-coupon rate and the margin, which was rescaled to adjust it to the current level of market rates.

Other receivables and liabilities with respect to banks

The fair value of these instruments was determined by discounting future principal and interest flows with current rates, assuming that the flows arise on contractual dates.

Loans and advances granted to customers

The fair value of such instruments without maturity and with short maturities, given their short-term nature and the time-stable policy of the Bank with respect to this portfolio, is close to balance-sheet value.

The fair value of instruments with defined long-term maturity is estimated by discounting related cash flows on contractual dates and under contractual conditions with the use of current zero-coupon rates and credit risk margins.

In case of residential mortgage loans the effect of early repayment, significant in this case, is additionally taken into account due to their long-term nature.

Liabilities to customers

Fair value of such instruments without maturity or with maturity under 3 months is considered by the Bank to be close to balance-sheet value.

Fair value of instruments due and payable in 3 or more months is determined by discounting future principal and interest cash flows with current rates contractual terms.

Liabilities from the issuance of structured debt securities

Liabilities from the issuance of structured debt securities are stated/priced at fair value in accordance with Bank's model. In this model, zero coupon bond price is calculated, which afterwards is increased by the option price, which was basis for a strategy built in a given structured bond. Data in the table illustrates only part related to bond price, option valuation has not been considered.

Subordinated liabilities

The fair value of this financial instrument is estimated on the basis of a model used for determining the market value of floating-rate bonds with the current level of market rates and credit risk margin based on current level of market rates and historical margin for credit risk. Similar as in loan portfolio the Bank includes the level of the original margin as a part of mid-term cost of financing obtained in the past in relation to the current margin level for the comparable instruments, as long as reliable assessment is possible. Due to lack of the mid-term loans liquid market as a reference to estimate current level of margins, the Bank used the original margin.

The table below presents results of the above-described analyses as at 31 December 2011:

in PLN '000

ASSETS	Note	Balance sheet value	Fair value
Loans and advances to banks	15	2 660 366	2 700 024
Loans and advances to customers *	18	39 832 055	38 835 199

LIABILITIES	Note	Balance sheet value	Fair value
Amounts due to banks	26	1 522 406	1 562 356
Amounts due to customers	29	37 549 802	37 546 663
Debt securities	31	394 775	386 978
Subordinated debt	35	663 228	655 546

* The negative impact of fair value valuation of the loans portfolio is largely attributable to growth of loan spreads due to the refinancing cost increase of those positions. Commencing from 2008 Polish banks raised spreads on newly granted loans to compensate for increased risk coming from deteriorating credit capacity of customers. The methodology, which the Bank uses for valuation of the loans portfolio, assumes that current spreads best reflect existing market conditions and economic situation. A corresponding rule is applied for valuation of debt securities, which are not quoted on active markets.

In result, paradoxically whenever the Bank raises spreads, fair value of the "old" loans portfolio falls.

The table below presents results of the above-described analyses as at 31 December 2010:

in PLN '000

ASSETS	Note	Balance sheet value	Fair value
Loans and advances to banks	15	1 485 797	1 516 427
Loans and advances to customers	18	35 677 997	34 050 739

LIABILITIES	Note	Balance sheet value	Fair value
Amounts due to banks	26	2 084 456	2 142 727
Amounts due to customers	29	35 525 839	35 525 113
Debt securities	31	384 537	373 050
Subordinated debt	35	911 988	906 290

The table below presents balance sheet values of instruments measured at fair value, ranked according to the fair value measurement method applied:

In PLN ths., as at 31.12.2011				
ASSETS	note	Quoted market prices	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs
Financial assets valued at fair value through profit and loss (held for trading)	**16**			
- derivatives			400 402	52
- debt securities		316 250		
Hedging derivatives	**17**		130 636	
Financial assets available for sale	**19**			
- debt securities		1 927 780	1 204 727	
- shares and interests				1 078
LIABILITIES				
Financial liabilities valued at fair value through profit and loss (held for trading)	**27**			
- derivatives and short sale of securities			574 418	
Hedging derivatives	**28**		2 298 099	

In PLN ths., as at 31.12.2010				
ASSETS	note	Quoted market prices	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs
Financial assets valued at fair value through profit and loss (held for trading)	**16**			
- derivatives			440 337	545
- debt securities		752 141	228 219	
Hedging derivatives	**17**		80 231	
Financial assets available for sale	**19**			
- debt securities		2 975 319	1 521 645	
- shares and interests		9 812		1 071
LIABILITIES				
Financial liabilities valued at fair value through profit and loss (held for trading)	**27**			
- derivatives and short sale of securities			804 965	
Hedging derivatives	**28**		1 315 321	

The category of derivatives which were measured at fair value based on unobservable inputs (valuation techniques with use of important parameters not derived from the market) comprises FX options. The credit risk valuation component (valuation component not derived from the market) is reflected only in case of options, whose fair value is presented in the balance sheet as an asset. Options presented as the Bank's liability are included in the category "measured at fair value based on parameters derived from the market (description of the method of valuation of FX options is presented in Chapter VI "Accounting Policy"). In 2009 the Bank ceased to conclude FX options transactions with customers, in result the value of these transactions fell strongly.

Changes of fair values of instruments measured on the basis of valuation techniques with use of significant parameters not derived from the market in 2011 are presented in the table below:
In PLN ths.

	FX options	Shares and interests
As at 01.01.2011	545	1 071
Settlement /purchase /sell	(494)	0
Valuation change comprised in Profit and Loss Account including interests	1	7
As at 31.12.2011	52	1 078

XI. INFORMATION ON ASSETS COLLATERALIZING LIABILITIES

As at 31 December 2011 following assets of the Bank constituted security of liabilities:

No.	Type of assets	Portfolio	Secured liability	Par value of assets	Balance sheet value of assets
1.	Treasury bonds WZ0115	available for sale	Lombard credit granted to the Bank by the NBP	280 000	284 301
2.	Treasury bonds OK0114	available for sale	Initial security deposit for bond futures	500	453
3.	Treasury bonds WZ0115	available for sale	Security of Guaranteed Monies Protection Fund under the Bank Guarantee Fund	37 545	38 122
4.	Treasury bonds OK1012	available for sale	Security of Guaranteed Monies Protection Fund under the Bank Guarantee Fund	16 374	15 788
5.	Treasury bonds PS0416	available for sale	Security of Guaranteed Monies Protection Fund under the Bank Guarantee Fund	25 548	26 204
6.	Treasury bonds OK0114	available for sale	Security of Guaranteed Monies Protection Fund under the Bank Guarantee Fund	133 000	120 624
7.	Cash		Payment to the Futures Settlement Guarantee Fund	100	100
8.	Deposits	Deposits on other banks	Settlement on transactions concluded	1 801 044	1 801 044
9.	Loans and advances	Loans and advances	Loan agreement	127 009	125 793
TOTAL				**2 421 120**	**2 412 429**

As at 31 December 2010 following assets of the Bank constituted security of liabilities:

No.	Type of assets	Portfolio	Secured liability	Par value of assets	Balance sheet value of assets
1.	Treasury bonds DZ0811	available for sale	Lombard credit granted to the Bank by the NBP	65 000	65 900
2.	Treasury bonds OK0711	available for sale	Lombard credit granted to the Bank by the NBP	75 000	73 350
3.	Treasury bonds DZ0811	available for sale	Initial security deposit for bond futures	500	507
4.	Treasury bonds OK0711	available for sale	Security of Guaranteed Monies Protection Fund under the Bank Guarantee Fund	75 000	73 350
5.	Treasury bonds DZ0811	available for sale	Security of Guaranteed Monies Protection Fund under the Bank Guarantee Fund	30 000	30 415
6.	Treasury bonds OK0112	available for sale	Security of Guaranteed Monies Protection Fund under the Bank Guarantee Fund	85 000	81 209
7.	Cash		Payment to the Futures Settlement Guarantee Fund	70	70
8.	Deposits	Deposits on other banks	Settlement on transactions concluded	1 000 302	1 000 302
9.	Loans and advances	Loans and advances	Loan agreement	164 708	141 385
TOTAL				**1 495 580**	**1 466 488**

XII. SECURITIES SUBJECT TO TRANSACTIONS WITH BUY-BACK CLAUSE

As at 31 December 2011, the following securities (presented in the balance sheet of the Bank) were subject to Sell Buy Back transactions):

Type of security	Portfolio	Par value	Balance sheet value
Treasury bonds	trading	1 651 329	1 621 794
TOTAL		1 651 329	1 621 794

As at 31 December 2010, the following securities (presented in the balance sheet of the Bank) were subject to Sell Buy Back transactions):

Type of security	Portfolio	Par value	Balance sheet value
Treasury bonds	trading	716 927	673 330
TOTAL		**716 927**	**673 330**

XIII. ADDITIONAL EXPLANATIONS TO CASH FLOW

The following assets are recognized by the Bank as cash and cash equivalents for the application in the cash flow account:

Data in PLN thous.

	31.12.2011	31.12.2010
Cash and balances with the Central Bank	2 017 550	2 050 515
Receivables from interbank deposits (*)	459 741	145 018
Debt securities issued by the State Treasury (*)	1 165 461	1 063 295
of which available for sale	1 118 738	999 708
of which trading	46 722	63 587
Total	**3 642 752**	**3 258 827**

(*) financial assets of maturity below 3 months

The following activity categories have been adopted for the cash flow account report:

1. operating activity – covers core scope of activities related to provision of the Bank's services, covering any efforts to generate profits, other than investment or financial ones,
2. investment activity – covers actions related to purchase and sale of fixed assets, in particular financial assets not classified as „held for trading" or stocks and shares in subsidiaries, and material fixed assets and intangibles,
3. financial activity – covers actions related to acquisition of funds in form of capitals or liabilities, as well as the servicing the sources of financing.

“Other items” of operating cash flows in 2011 include an adjustment of PLN 32 million (PLN 26 million in 2010) on account of accrual of interest on subordinated loans, the outflow of these funds has been presented in the part concerning cash flows on financial operations. In addition ‘other flows’ from financing activities includes the payment of interest on loans of PLN 34 million (61 million respectively for the year 2010).

XIV. INFORMATION ON CUSTODY ACTIVITY

As of 31.12.2011 the Custody Department maintained 9,912 securities accounts, registers of foreign financial instruments and deposits accounts, in which Customers’ assets were kept with the total value of PLN 27,708.9 million. Net revenue from the custody business for 2011 amounted to PLN 7.6 million as compared to PLN 7.1million recorded in 2010. The Custody Department serves as a depositary bank for 49 mutual funds including 10 of Millennium TFI S.A. (two funds with separated sub funds).

XV. TRANSACTIONS WITH RELATED ENTITIES

(1) DESCRIPTION OF TRANSACTIONS WITH RELATED ENTITIES

All transactions among members of the Group made in 2011 were driven by current activity. The below table presents major amounts of intergroup transactions, which were eliminated in the data consolidation process; these were transactions with the following entities:

– MILLENNIUM LEASING,
– MILLENNIUM DOM MAKLERSKI,
– MILLENNIUM TFI
– BBG FINANCE BV,
– MB FINANCE AB
– ORCHIS
– MILLENNIUM SERVICE,
– MILLENNIUM TELECOMMUNICATION SERVICES,
– TBM,

and with the Capital Group of Bank parent company - Banco Comercial Portugues (these transactions are mainly of banking nature).

Apart from transactions described herein, in the indicated period neither Bank Millennium S.A., nor subsidiaries of Bank Millennium S.A. made any other transactions with related entities, which individually or jointly may have been significant and concluded under terms and conditions other than market-based.

ASSETS AND LIABILITIES FROM TRANSACTIONS WITH RELATED PARTIES (DATA IN '000 PLN) AS AT 31.12.2011

	With subsidiaries	With parent Group
ASSETS		
Loans and advances to banks – accounts and deposits		248 655
Loans and advances to customers	1 757 548	
Investments in associates	300 687	
Financial assets valued at fair value through profit and loss (held for trading)	3 021	
Hedging derivatives		
Other assets	261 857	105

LIABILITIES		
Deposits from banks		74 971
Deposits from customers	228 926	
Liabilities from securities sold with buy-back clause	15 707	
Hedging derivatives		304 263
Financial liabilities valued at fair value through profit and loss (held for trading)	203	91
Other liabilities, including:	118 599	469
- financial leasing liabilities	72 469	

ASSETS AND LIABILITIES FROM TRANSACTIONS WITH RELATED PARTIES (DATA IN '000 PLN) AS AT 31.12.2010

	With subsidiaries	With parent Group
ASSETS		
Loans and advances to banks – accounts and deposits		4 728
Loans and advances to customers	2 191 276	
Investments in associates	300 105	
Financial assets valued at fair value through profit and loss (held for trading)	3 852	19 216
Hedging derivatives		69 616
Other assets	1 897	671

LIABILITIES		
Deposits from banks		793 828
Deposits from customers	273 971	
Liabilities from securities sold with buy-back clause	3 503	
Hedging derivatives		69 748
Financial liabilities valued at fair value through profit and loss (held for trading)	634	
Other liabilities, including:	139 548	424
- financial leasing liabilities	137 673	

PROFIT AND LOSS ON TRANSACTIONS WITH RELATED PARTIES (DATA IN '000 PLN) FOR THE PERIOD OF 1.01-31.12.2011

	With subsidiaries	With parent Group
Income from:		
Interest	78 769	105 633
Commissions	48 387	
Derivatives net	232	3 463
Dividends	11 000	
Other net operating income	3 083	1 999
Expense from:		
Interest	19 771	43 665
Commissions	27	5 710
Derivatives net	0	
General and administrative expenses	76 178	4 181

PROFIT AND LOSS ON TRANSACTIONS WITH RELATED PARTIES (DATA IN '000 PLN) FOR THE PERIOD OF 1.01-31.12.2010

	With subsidiaries	With parent Group
Income from:		
Interest	61 049	64 044
Commissions	53 776	
Derivatives net	1 250	
Dividends	18 206	
Other net operating income	3 291	2 668
Expense from:		
Interest	6 609	54 187
Commissions	29	1 790
Derivatives net		6 678
General and administrative expenses	69 888	5 284

OFF-BALANCE TRANSACTIONS WITH RELATED PARTIES (DATA IN '000 PLN) AS AT 31.12.2011

	With subsidiaries	With parent Group
Conditional commitments	123 238	986 570
Derivatives (par value)	154 177	5 361 126

OFF-BALANCE TRANSACTIONS WITH RELATED PARTIES (DATA IN '000 PLN) AS AT 31.12.2010

	With subsidiaries	With parent Group
Conditional commitments	150 124	805 797
Derivatives (par value)	303 809	4 536 378

(2) Information on outstanding prepayments, advances, loans, and guarantees

Data on exposure reported with respect to Persons Managing and Supervising the Bank, as of 31.12.2011:

	The management	The supervising persons
Total debt limit (in '000 PLN), **- including an unutilized limit (in '000 PLN),**	1 198.0 702.9	165.0 143.3
Mortgage loans and advances	3 576.3	-
Active guarantees	-	-

The Bank provides standard banking services to relatives of Members of the Management Board and Members of the Supervisory Board, which services comprise i.a.: keeping bank accounts, accepting deposits or sale of financial instruments. In the Bank's opinion these transactions are concluded on market terms and conditions.

Data about total exposure to entities related personally, as of 31.12.2010:

Entity	Amount (in '000 PLN)	Relationship
Client 1	5 868	Personal with a supervising person
Client 2	455	Personal with a supervising person
Client 3	1 382	Personal with a supervising person
Group 1	170 611	Personal with a supervising person

Outstanding loans granted to the Bank's employees from ZFŚS (company social benefits fund) amounted to PLN 3,902.3 thousands.

The Bank does not keep a record of loans granted to employees as part of its regular business i.e. on terms and conditions stipulated for the Bank's Customers.

Data on exposure reported with respect to Persons Managing and Supervising the Bank, as of 31.12.2010:

	The management	The supervising persons
Total debt limit (in '000 PLN), **- including an unutilized limit (in '000 PLN),**	1 210.0 381.7	125.0 113.0
Mortgage loans and advances	3 314.5	-
Active guarantees	-	-

Data about total exposure to entities related personally, as of 31.12.2010:

Entity	Amount (in '000 PLN)	Relationship
Client 1	5 269	Personal with a supervising person
Client 2	395	Personal with a supervising person
Group 1	140 465	Personal with a supervising person
Group 2	6 465	Personal with a supervising person

Outstanding loans granted to the Bank's employees from ZFŚS (company social benefits fund) amounted to PLN 4,349.6 thousands.

(3) INFORMATION ON REMUNERATIONS AND BENEFITS OF PERSONS MANAGING AND SUPERVISING THE BANK

Remuneration of the Management Board Members (data in PLN thousands):

Year	Salaries and bonuses	Benefits	TOTAL
2011	12 957.0	1 589.6	**14 546.6**
2010	9 180.0	1 692.7	**10 872.7**

Total value of remuneration of the Members of the Management Board in 2011 was PLN 14,546.6 thousand. This amount includes remuneration of the Members of the Management Board together with bonus for year 2010 amounted to PLN 3,450 thousand and fringe benefits. In 2011 the provision for bonus was established in the amount of PLN 9,266.9 thousand. In 2011 the Members of the Management Board received no salaries or any fringe benefits from Subsidiaries.

Remuneration of the Supervisory Board Members of the Bank (data in PLN thousands):

Period	Short term salaries and benefits
2011	**1 669.2**
2010	**1 637.9**

In 2011 Members of the Bank's Supervisory Board received no salaries or any fringe benefits from Subsidiaries.

(4) Balance of shares of the Bank held by persons managing or supervising the Bank (performing their functions at 31 Dec 2011)

Name and surname	Function	Number of shares as at 31.12.2011	Number of shares as at 31.12.2010
Bogusław Kott	Chairman of the Management Board	4 465 791	4 465 791
Joao Bras Jorge	Deputy Chairman of the Management Board	0	0
Fernando Bicho	Member of the Management Board	0	0
Julianna Boniuk-Gorzelańczyk	Member of the Management Board	492 248	492 248
Maria Jose Campos	Member of the Management Board	0	0
Andrzej Gliński	Member of the Management Board	0	0
Wojciech Haase	Member of the Management Board	7 494	7 494
Artur Klimczak	Member of the Management Board	0	0
Jerzy Andrzejewicz	Proxy	6 260	6 260
Maciej Bednarkiewicz	Chairman of the Supervisory Board	134	134
Ryszard Pospieszyński	Deputy Chairman of the Supervisory Board	86 300	86 300
Carlos Jorge Ramalho dos Santos Ferreira	Deputy Chairman of the Supervisory Board	0	0
Marek Furtek	Secretary of the Supervisory Board	1	1
Luis Pereira Coutinho	Member of the Supervisory Board	0	0
Vitor Manuel Lopes Fernandes	Member of the Supervisory Board	0	0
Andrzej Koźmiński	Member of the Supervisory Board	0	0
António Manuel Palma Ramalho	Member of the Supervisory Board	0	0
Nelson Ricardo Bessa Machado	Member of the Supervisory Board	0	0
Marek Rocki	Member of the Supervisory Board	0	0
Dariusz Rosati	Member of the Supervisory Board	0	0

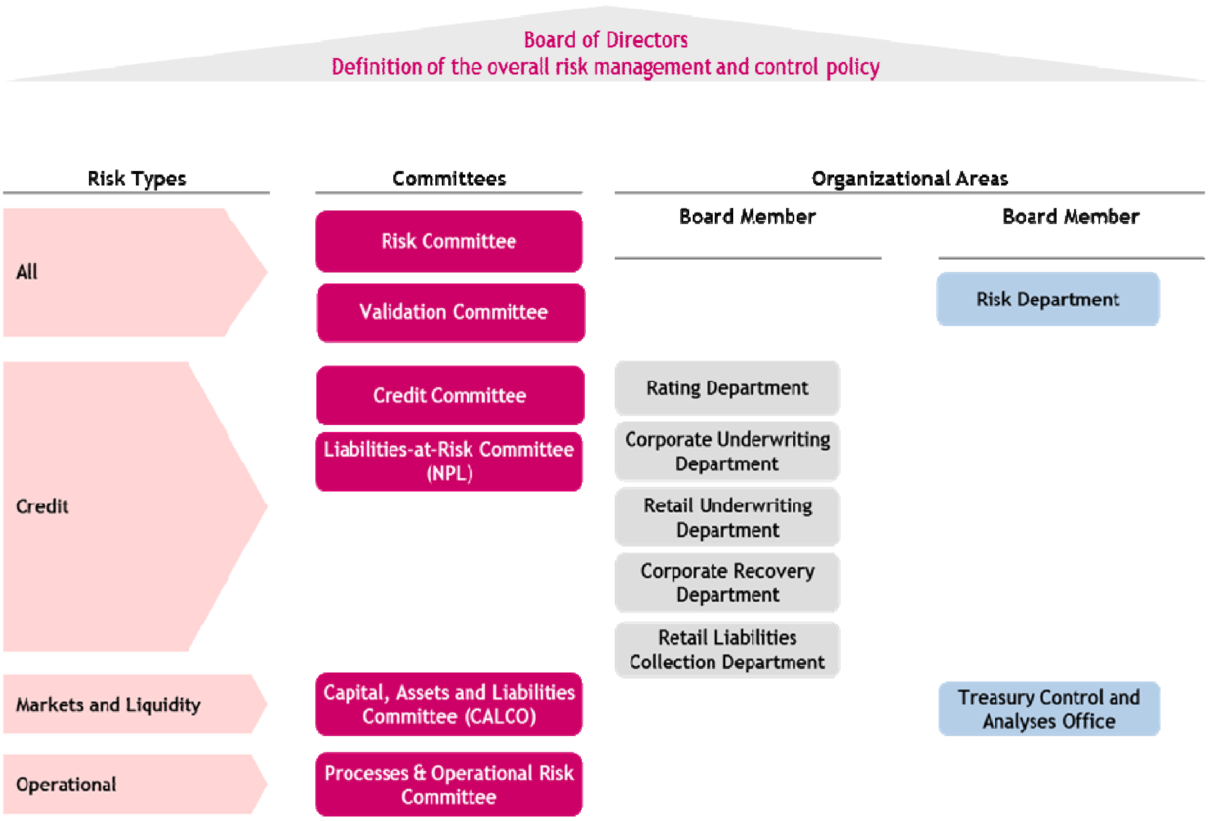
XVI. RISK MANAGEMENT

The management of risk is one of the key tasks of the Management Board in the process of effective management of the Bank. It defines the framework for business development, profitability and stability, by creating rules ensuring the Bank's compliance with best internal control practices and legal requirements and coordination of the strategy for managing all risks.

Risk management in the Bank aims to ensure that all types of risks are managed, monitored and controlled with reference to its sustainability, profitability of operations and the level of capital necessary to ensure the safety of operations from the point of view of capital adequacy. The results of risk measuring are regularly reported as part of the management information system.

Efficient risk management requires a consistent risk management system, which is a collection of rules and mechanisms that regulate all the activities involving identification, measurement, mitigation, monitoring and reporting of individual risk types. Such rules also include a broad range of methods, both qualitative and quantitative, including advanced mathematical and statistical tools supported by adequate IT systems.

Important principle of risk management is the optimization of the risk and profitability trade-off – the Bank pays special attention to ensure that its business decisions balance risk and profit adequately. The segregation of duties between risk origination, risk management and risk control is the next of the main rules on the risk management framework in the bank.
The risk governance model can be represented as follows:



Risk governance model

Split of competence in the field of risk management is as follows:

- The Supervisory Board is responsible for overseeing the compliance of the Bank's risk-taking policy with the Bank's strategy and its financial plan;
- The Management Board is responsible for the effectiveness of the risk management system, internal control system, internal capital estimation process, for reviewing the internal capital calculation and maintenance process and the internal control systems;
- The Credit Committee, the Capital, Assets and Liabilities Committee, and the Liabilities at Risk Committee are responsible for current management of different areas of banking risk, within the framework determined by the Management Board; and

- The Risk Committee and the Processes and Operational Risk Committee are responsible for monitoring and control of different areas of banking risk, within the framework determined by the Management Board.

- The Validation Committee (established in 2011) is responsible for confirmation of risk models validation results and follow-up in the implementation of the measures defined by the Validation Team in Risk Department

- The Risk Department is responsible for risk management, including identifying, measuring, analyzing, monitoring and reporting on risk within the Bank. The Risk Department also prepares risk management policies and procedures as well as provides information and proposes courses of action necessary for the Risk Committee and the Management Board to make decisions with respect to risk management.

- The Rating Department (established in 2011) is mainly responsible for risk rating assignment for Corporate clients (based on the evaluation of clients' creditworthiness) as well as for rating monitoring and potential revision during the period of its validity. Rating assignment process is independent from credit decision process.

- The Corporate Credit Underwriting Department and the Retail Credit Underwriting Department have responsibility, within the Corporate Customer segment and Retail Customer segment, respectively, for the credit decision process, including analyzing customers' financial situation, preparing credit proposals for the decision-making levels and making credit decisions within specified limits.

- The Retail Liabilities Collection Department has responsibility for monitoring repayment of overdue debts by retail customers and their collection.

- The Corporate Recovery Department develops specific strategies with respect to each debtor, which aims to maximize timely collection of the outstanding debt and minimize the risk incurred by the Bank. This approach is constantly revised to reflect updated information, and the best practices and experiences regarding collection of overdue debts.

- The Treasury Control and Analyses Office has responsibility for monitoring the use of part of the Bank's limits, including counterparty and stop-loss limits, the Group's FX position, results of active trading and control of operations of the treasury segment.

(1) CAPITAL MANAGEMENT

Regulatory own funds

The management of the Bank's capital, in addition to complying with own needs must fully observe statutory regulations in this regard (own funds, prudential standards, capital requirements) as set by the Banking Act and respective resolutions of the Polish Financial Supervisory Authority.

The Bank's capital adequacy is regularly monitored in detail for individual types of exposure, its coverage by own regulatory funds and change in trends. In this context risk factors, which may lead to deterioration of the Bank's capital position are monitored, including changes of FX rates, real estate prices, growth of impaired exposures. Stress tests are carried out, reflecting growth of these risk factors as well as the potential impact on capital adequacy.

The key priority in capital management in 2011 was to intensify activities associated with the process in which the supervisory authority evaluated the application to apply the Internal Ratings-Based Approach (IRB) for the calculation of capital requirements for credit risk.

Internal capital

The Bank performs its process of internal capital adequacy assessment based on model of economic capital.

The calculation of economic capital covers all the material risk types to which the Bank is exposed to and is based on the set of parameters adjusted to the specifities and realities of the Polish market.

In the process of internal capital calculation particular types of risk and risk-diversification effects are subject to stress testing. Total diversified economic capital is compared then with the risk-taking capacity, i.e. with own funds/available financial resources. As a result of that analysis, internal economic capital adequacy is assessed. In 2011 – similar to 2010 - total risk of the Bank (internal to capital) was completely secured by available to this purpose funds. Internal capital is allocated into particular business areas.

(2) CREDIT RISK

The credit risk is one of the most important risk type for the Bank and therefore considerable attention is given to management of credit risk-bearing exposures. Credit risk is connected with balance-sheet credit exposures (i.e., granted credit and loans) as well as off-balance sheet financial instruments, such as granted and unutilized credit lines, guarantees and letters of credit, as well as limits for transactions in financial instruments.

The credit policy is subject to periodic reviews and verification process taking into account the prevailing market conditions and changes in the Bank's regulatory environment.

The Bank uses several rating systems to manage credit risk depending on the type of exposure and the customer segment involved. A rating system is a set of methods (models), processes, controls, data collection procedures and IT systems that identify and measure credit risk, sort levels of exposure by grades or pools (granting of credit rating), and quantify probability of default and expected loss estimates for specific types of exposure.

(2A) MEASUREMENT OF CREDIT RISK

Loans and advances

Measurement of credit risk, on the level of individual customers, on account of granted loans is done with the consideration of three parameters:

(i) Probability of Default (PD) of a customer or counterparty as regards their liability;

(ii) amount of Exposure At Default (EAD) and

(iii) the ratio of Loss Given Default (LGD) regarding the customer's liability.

(i) The Bank assesses the probability of default (PD) of individual counterparties, using internal rating models adapted to various categories of customers and transactions. Models were developed at the level of the BCP Group, in-house or by external providers, and combine statistical analysis with assessment by a credit professional. The Bank's customers are divided into 15 rating classes, which for the purposes of this Report have been grouped into 6 main brackets. The Bank's Master Ratings Scale, presented below, also contains the scale of probabilities of non-compliance with the liabilities specified for a given class/rating group. Rating models are subject to regular reviews and – if necessary – to relevant modification. Modifications of models are confirmed by Validation Committee.

The Bank regularly analyses and assesses rating results and their predictive power with respect to cases of default. The process of assigning client risk assessments is performed by Rating Department independently from credit decision process and transactions are supported by IT systems, obtaining and analyzing information from internal and external databases.

The Bank's internal rating scale

INTERNAL RATING GRADE	Description of rating
1-3	Highest quality
4-6	Good quality
7-9	Medium quality
10-12	Low quality
13-14	Watched
15	Default

(ii) EAD – amount of exposure at default – concerns amounts, which according to the Bank's predictions will be the Bank's receivables at the time of default against liabilities. Liabilities are understood by the Bank to mean every amount disbursed plus further amounts, which may be disbursed until default, if such occurs.

(iii) LGD – loss given default is what the Bank expects will be its losses resulting from actual cases of default, with the consideration of internal and external costs of recovery and the discount effect.

Debt Securities

The portfolio of debt securities, other than those issued by the State Treasury or the Central Bank, is relatively small.

(2B) LIMITS CONTROL AND RISK MITIGATION POLICY

The Bank measures, monitors and controls large credit exposures and high credit risk concentrations, wherever they are identified. Concentration risk management process encompasses single-name exposures (with respect to an individual borrower or group of connected borrowers with material capital, organizational or economic relations) and sectoral concentration – to economic industries, geographical regions, countries, and the real estate financing portfolio including FX loans. Above types of sectoral exposures are subject to internal limits system. Information about the utilization of limits are presented at the Risk Committee, that may take decisions concerning reduction of exposure to particular borrowers or loan subportfolios or certain sectors of activities, etc.

Resulting from art. 71 of the Banking Act limits with respect to one borrower or group of connected borrowers, are monitored monthly while the internal, sectoral limits are monitored quarterly. Limits are subject to annual or more frequent review, when deemed appropriate. The limits are approved by the Credit Committee.

Management of credit risk exposure is also performed through regular monitoring of customers' economic and financial situation and/or track record of their relationship with the Group from the point of view of punctual repayment of their principal and interest liabilities.

Collateral

The Bank accepts collateral to mitigate its credit risk exposure; the main role of collateral is to minimize loss in the event of customers' default in repayment of credit transactions in contractual amounts and on contractual dates by ensuring an alternative source of repayment of due and payable amounts.

Collateral is accepted in accordance with the credit policy principles defined for each customer segment. The key principle is that collateral for credit transaction should correspond to the credit risk incurred by the Bank, taking into account the specific nature of the transaction (i.e. its type, amount, repayment period and the customer's rating).

The credit policy defines the types, kinds and legal forms of collateral accepted in the Bank as well as more detailed requirements that are to ensure the probability of selling collateral of respective types in the context of the Bank's recovery experiences.

The Bank pays special attention to the correct determination of collateral value. It defined the rules for preparing and verifying collateral valuation and does it utmost to ensure that such valuations are objective, conservative and reflect the true value of the collateral. In order to ensure effective establishment of collateral, the Bank has developed appropriate forms of collateral agreements, applications, powers-of-attorney and representations.

In the retail segment, accepted collateral consists mainly of residential real property (mortgage loans) and financial assets. In the corporate segment, in addition to all types of real property (residential, commercial, land), physical collateral is also accepted (vehicles, construction equipment, technical equipment, machinery) as well as assignment of contractual receivables.

Temporary collateral is also accepted in the period before the final collateral is established. Additionally, the Group uses various forms of instruments supplementing the collateral, which facilitate enforcement or increase probability of effective repayment of debt from a specific collateral. Those instruments include: statement of submitting to enforcement, blank promissory note, power-of-attorney to a bank account, assignment of rights under an insurance agreement, low contribution insurance, bridge insurance.

The Group monitors the collateral to ensure that it satisfies the terms of the agreement, i.e. that the final collateral of the transaction has been established in a legally effective manner or that the assigned insurance policies are renewed. The value of the collateral is also monitored during the term of the credit transaction.

In accordance with credit policy adopted in the Bank it is also allowed to grant a transaction without collateral, but this takes place according to specific principles, which are different depending on the client's segment. But in the case of the deterioration of the debtor's economic and financial situation, in the most of documents signed with the client the Group stipulates the possibility of taking additional collateral for the transaction.

Derivatives

The Bank maintains strict control over the limits of net open derivative positions both with respect to amounts and transaction maturities. Credit risk exposures resulting from derivatives are managed as part of total credit limits defined for individual customers calculated on the basis of verification of natural exposure and analysis of customer's financial situation, and also as part of counterparties' limits.

The Bank offers Treasury products for FX risk or interest rate risk only for hedging purposes and under Treasury limits assigned to clients or secured by specific collateral (deposit).

Most of the Bank's agreements include the possibility of calling the client to replenish the margin deposit, (if the valuation of the client's open position exceeds treasury limit, the so-called *margin call*); and if the client does not supplement the deposit, the Bank has the right to close the position.

Credit risk-based off-balance sheet liabilities

Credit risk-based off-balance sheet liabilities include guarantees, letters of credit as well as granted credit lines. The main purpose of these instruments is to enable the customer to use the funds granted by the Bank in a specific way.

Guarantees and letters of credit of standby type (liability similar to guarantee) bears at least the same credit risk as loans (in the case of guarantees and stand-by letters of credit type when valid claim appears, the Bank must make a payment).

Documentary and commercial letters of credit are a written, irrevocable and final obligation of the Bank to accept payments based on compliant documents within the time limits specified in the letters of credit and are connected with a guarantee-like risk.

The available credit line balance is the non-utilised part of previously accepted amounts pertaining to credit liabilities, available for use in the form of loans, guarantees or letters of credit. Considering the credit risk of undertakings to grant credit, the Bank is potentially exposed to a loss in an amount equal to the sum of non-utilised liabilities.

However the probable loss amount is usually lower than the total value of non-utilised liabilities, because most of the undertakings to disburse credit depend on customers' particular credit conditions.

The Bank monitors the period remaining to maturity of off-balance liabilities because long-term liabilities usually involve a higher degree of credit risk than short-term liabilities.

(2c) POLICY WITH RESPECT TO IMPAIRMENT AND CREATION OF REVALUATION CHARGES

In the process of estimating impairment, first of all objective impairment triggers are identified in the case of individually material financial assets (case-by-case analysis) and then the remaining part of the portfolio is analysed collectively.

Within the process of individual analysis, in the first place objective and subjective impairment factors are looked for and, if identified, in the second place, cash flows are estimated including flows from collaterals and on such basis impairment level is defined. In case of collective analysis, the level of revaluation charges is estimated using statistical parameters for probability of being impaired (PI) and loss given the impairment (LGI).

Individual impairment analysis for credit receivables

If in the course of analysis triggers are identified, indicating the possibility of impairment of credit receivables, the Bank will determine the amount of impairment. This amount constitutes of the difference between current balance credit exposure and the present value of expected future cash flows, discounted with the effective interest rate. The calculation takes into account the probability of loan repayment on maturity date and the probability of potential recovery from collateral e.g. in connection with its sale.

The whole process comprises following stages:

- Identification of impairment triggers;
- Estimation of probability of recovery of principal and interest;
- Indication if the loan is to be repaid with the borrower's own funds or whether it is necessary to use collateral, e.g. by selling it;
- Estimation of fair value of the collateral, definition of expected sale date and estimating expected sales proceeds taking account of recovery process costs.

At the end of 2011, the financial effect of the established collaterals for receivables with recognised impairment being a subject to individual analysis (Case by Case) amounted to PLN 180 million. This is the amount by which the level of impairment provisions assigned to the portfolio would be higher if during impairment provisions computations estimated cash flows from collaterals had not been taken into account.

Collective analysis of loans portfolio

The following loans are subjected to collective analysis:

- Individually immaterial receivables;
- Individually material receivables in which impairment was not recognised.

A portfolio of homogenous loans comprises exposures with a similar risk profile, and thus e.g. a homogenous loans portfolio may be created on the basis of segmentation into business lines, type of credit products, number of past due days, type of collateral (leasing) etc.

All loans, which are subject to collective analysis, are divided into two main portfolio categories:

- Loans where losses occurred, but have not yet been identified at the level of individual exposures and provisions are created for risk which has been incurred but not yet reported *(IBNR portfolio)*,
- Loans where impairment was recognised, but which were not subjected to case-by-case analysis.

In 2011, the Bank focused on monitoring the effect of the changes made in the previous year and on implementing further improvements of the process resulting from those observation. As a result of those activities, additional elements were added to the collective analysis methodology:

- In the mortgage portfolio, an additional sub-portfolio was added where impairment charges rely on the current value of the LTV ratio,
- For retail loans, the quarantine period was redefined by taking grace period into account.

The table below presents the share of the Bank's balance-sheet items concerning loans and advances and related impairment provisions for each internal rating class (described in 'Credit Risk Measurement').

Internal rating of the Bank

	31.12.2011		31.12.2010	
	Loans and advances (%)	**Impairment charges (%)**	**Loans and advances (%)**	**Impairment charges (%)**
1. Highest quality	Minor	Minor	Minor	Minor
2. Good quality	38.45%	3.52%	39.02%	3.99%
3. Medium quality	29.98%	5.77%	33.04%	6.21%
4. Low quality	16.85%	5.72%	10.95%	2.61%
5. Watched	1.00%	2.95%	3.80%	6.08%
6. Default	4.57%	79.96%	5.63%	79.86%
7. Clients without rating*	9.15%	2.08%	7.56%	1.25%
Total	**100.00%**	**100.00%**	**100.0%**	**100.0%**

* The group of customers without internal rating contains exposures connected with loans to local authorities as well as investment projects.

(2D) MAXIMUM EXPOSURE TO CREDIT RISK I.E. NET OF RISK-MITIGATING INSTRUMENTS

'000 PLN

	Maximum exposure	
	31.12.2011	**31.12.2010**
Exposures exposed to credit risk connected with balance sheet assets appear as follows:	**46 668 547**	**43 468 374**
Loans and advances to banks	**2 660 366**	**1 485 797**
Loans and advances to customers:	**39 832 055**	**35 677 997**
Loans to private individuals:	**31 067 852**	**27 884 336**
– Credit cards	739 913	766 096
– Cash loans and other loans to private individuals	2 044 976	2 235 366
– Mortgage loans	28 282 963	24 882 874
Loans to companies	**7 853 472**	**7 064 437**
Loans to public entities	**910 731**	**729 224**
Trading securities:	**316 250**	**980 360**
– Debt securities	316 250	980 360
– Shares	0	0
Derivatives and adjustment from fair value hedge	**412 779**	**449 183**
Financial assets valued at fair value	**0**	**0**
Investment financial assets	**3 444 888**	**4 819 952**
– Debt securities	3 132 507	4 496 964
– Shares	312 381	322 988
Receivables from securities bought with sell-back clause	**2 209**	**55 085**
Credit risk connected with off-balance sheet items appears as follows:	**8 817 765**	**8 126 650**
Financial guarantees	2 126 403	1 884 009
Credit commitments and other commitments connected with loans	6 691 362	6 242 641

The table above presents the structure of the Bank's exposures to credit risk as at 31st December 2011 and 31st December 2010, not taking into account risk-mitigating instruments. As regards balance-sheet assets, the exposures presented above are based on net amounts presented in the balance sheet.

(2E) LOANS

The structure of loans granted to customers and to banks as well as key loans portfolio ratios are as follows:

Gross exposure in '000 PLN

	31.12.2011		31.12.2010	
	Loans and advances to customers	**Loans and advances to banks**	**Loans and advances to customers**	**Loans and advances to banks**
Not overdue and without impairment	37 500 912	2 660 366	33 460 815	1 485 797
Overdue, but without impairment	1 626 497	0	1 510 262	0
With impairment	1 783 249	0	1 735 681	0
Gross	**40 910 658**	**2 660 366**	**36 706 758**	**1 485 797**
Impairment write-offs together with IBNR	(1 078 603)	0	(1 028 761)	0
Net	**39 832 055**	**2 660 366**	**35 677 997**	**1 485 797**
Loans with impairment / total loans	4.36%		4.73%	

Loans and advances not past due and not impaired

The quality of the portfolio of loans, which were neither past-due, nor impaired, may be assessed by reference to the internal rating system adopted by the Bank.

Loans and advances not overdue and without impairment

Gross exposure in '000 PLN

	Customers 31.12.2011	**Banks 31.12.2011**	**Customers 31.12.2010**	**Banks 31.12.2010**
Rating:				
1. Highest quality	405	2 660 366	699	1 485 797
2. Good quality	15 677 311		14 215 850	
3. Medium quality	11 872 992		11 522 380	
4. Low quality	5 933 356		3 435 056	
5. Watched	152 896		671 828	
6. Default	191 942		229 287	
7. Clients without rating	3 672 010		3 385 715	
Total	**37 500 912**	**2 660 366**	**33 460 815**	**1 485 797**

Loans and advances past due but without impairment

Loans past due below 90 days are not considered as impaired exposures, unless other impairment triggers are identified. The gross amount of loans past due but without impairment, divided between customer segments, is as follows:

Gross exposure in '000 PLN

	31.12.2011				
	Loans and advances to customers			Loans and advances to banks	Total
	Companies	Mortgages	Other retail		
Delay till 30 days	163 808	1 075 814	216 999	0	1 456 621
Delay 30 - 60 days	16 253	52 427	35 943	0	104 623
Delay 60-90 days	7 638	19 950	16 166	0	43 754
Delay above 90 days*	19 899	6	1 594	0	21 499
Total	**207 598**	**1 148 197**	**270 702**	**0**	**1 626 497**

Gross exposure in '000 PLN

	31.12.2010				
	Loans and advances to customers			Loans and advances to banks	Total
	Companies	Mortgages	Other retail		
Delay till 30 days	112 537	985 939	213 338	0	1 311 814
Delay 30 - 60 days	29 710	47 773	39 481	0	116 964
Delay 60-90 days	5 440	13 730	18 181	0	37 351
Delay above 90 days*	40 733	416	2 984	0	44 133
Total	**188 420**	**1 047 858**	**273 984**	**0**	**1 510 262**

* - Receivables past due over 90 days, but not included in the impaired portfolio, displaying impairment triggers but not demonstrating impairment due to estimated cash flows.

Impaired loans and advances

The gross amount of impaired loans and advances broken down into customer segments is as follows:

Gross exposure in '000 PLN

	31.12.2011				
	Loans and advances to customers			Loans and advances to banks	Total
	Companies	Mortgages	Other retail		
By type of analysis					
Case by case analysis	845 180	32 226	902	0	878 308
Collective analysis	110 003	238 718	556 220	0	904 941
Total	**955 183**	**270 944**	**557 122**	**0**	**1 783 249**

Gross exposure in ‘000 PLN

	31.12.2010				
	Loans and advances to customers			Loans and advances to banks	Total
	Companies	Mortgages	Other retail		
By type of analysis					
Case by case analysis	909 685	18 508	552	0	928 745
Collective analysis	95 375	203 392	508 169	0	806 936
Total	**1 005 060**	**221 900**	**508 721**	**0**	**1 735 681**

Loans and advances covered by case-by-case analysis

The quantification of the value of the portfolio subjected to case-by-case analysis as well as of the value of created charges, split between impaired receivables and the IBNR portfolio (and respectively charges) is presented in financial notes.

The tables below present the structure of the impaired portfolio subjected to case-by-case analysis.

- By products

Gross exposure

Loans and advances to customers

	31.12.2011			31.12.2010		
	Amount in ‘000 PLN	Share %	Coverage by impairment	Amount in ‘000 PLN	Share %	Coverage by impairment
Investment loans	371 388	42.3%	28.1%	320 317	34.5%	28.5%
Working capital loans	126 575	14.4%	26.7%	195 823	21.1%	24.7%
Current account loans	60 437	6.9%	60.7%	63 810	6.9%	35.2%
Revolving loans	800	0.1%	64.5%	1 108	0.1%	59.3%
Mortgage loans	32 226	3.7%	21.9%	18 508	2.0%	20.5%
Factoring	15 804	1.8%	59.9%	94 990	10.2%	50.7%
Other*	271 078	30.8%	60.5%	234 189	25.2%	63.7%
	878 308	**100.0%**	**40.5%**	**928 745**	**100.0%**	**39.2%**

* - Additionally, in this position the liabilities regarding a settlement of forward operations, as well as refinance credits have been taken into account.

- By currency

Gross exposure

Loans and advances to customers						
	31.12.2011			31.12.2010		
	Amount in '000 PLN	Share %	Coverage by impairment	Amount in '000 PLN	Share %	Coverage by impairment
PLN	560 988	63.9%	48.6%	642 397	69.2%	44.6%
CHF	20 822	2.4%	14.9%	12 789	1.4%	16.7%
EUR	532	0.0%	0.0%	5 785	0.6%	21.7%
USD	295 966	33.7%	27.0%	267 774	28.8%	27.8%
	878 308	**100.0%**	**40.5%**	**928 745**	**100.0%**	**39.2%**

- By coverage ratio

Gross exposure

Loans and advances to customers				
	31.12.2011		31.12.2010	
	Amount in '000 PLN	Share %	Amount in '000 PLN	Share %
Till 20%	149 526	17.0%	246 082	26.5%
20% - 40%	439 823	50.1%	342 155	36.8%
40% - 60%	92 445	10.5%	162 073	17.5%
60% - 80%	70 866	8.1%	21 545	2.3%
Above 80%	125 648	14.3%	156 890	16.9%
	878 308	**100.0%**	**928 745**	**100.0%**

Restructured loans and advances

The restructuring of receivables is done by dedicated units (separately for corporate and retail receivables).
The restructuring of both corporate and retail receivables allows the Bank to take effective action towards the customers, the purpose of which is to minimize losses and mitigate, as quickly as possible, any risks to which the Bank is exposed in connection with client transactions giving rise to the Bank's off-balance sheet receivables or liabilities (receivables).

The restructuring process applies to the receivables which, based on the principles in place in the Bank, are transferred to restructuring and recovery portfolios and includes setting new terms of transactions which are acceptable for the Bank (including in particular the terms of their repayment and their collateral and possibly obtaining additional collateral.

Recovery of retail receivables is a fully centralised process implemented in two stages:

1) warning process - conducted by Direct Banking Department,

2) restructuring and execution proceedings – implemented by Retail Liabilities Collection Department.

Process performed by Direct Banking Department involves, solely, direct, telephone contacts with Customers and obtaining repayment of receivables due to the Bank. In case of failure to receive repayment or in case the Customer applies for debt restructuring, the case is taken over by the Retail Liabilities Collection Department and involves any and all restructuring and execution activities (court proceedings).

Recovery process is supported by specialised IT system covering the entire Customer portfolio, fully automated at the stage of portfolio monitoring and supporting actions undertaken in later restructuring and recovery phases. The behavioural scoring model constitutes an integral component of the system, used at the warning stage. The system is used for retail liabilities collection process applicable to all retail Customer segments.

The scoring model is based on its internal calculations including, *inter alia,* total exposure of the Bank in a given Customer, Customer's business segment type of credit risk based product (applicable, primarily, to mortgage products) and history of cooperation with the Customer relative to previous restructuring and execution activities. Late receivables from retail customers are sent to the IT system automatically no later than 4 days after the date of the receivable becoming due and payable.

The restructuring and recovery process applicable to corporate receivables is centralized and performed by the Corporate Recovery Department (DNG). Recovery of corporate receivables aims to maximize the recovery amounts in the shortest possible periods of time and to mitigate risk incurred by the Bank by carrying out the accepted restructuring and recovery strategies towards:

- the Customer,
- corporate receivables,
- collateral ensuring their repayment.

The actions performed as part of those strategies include, among others: setting the terms and conditions of Customer financing, terms and conditions of restructuring corporate receivables, including the terms on which they will be repaid and secured, obtaining valuable and liquid collateral, achieving amicable repayment, recovery of due and payable receivables, also from collateral held by the Group.

DNG manages the corporate receivable restructuring and recovery process in the corporate portfolio by using IT applications supporting the decision-making process. They provide instantaneous information on receivables, collateral, approach used and key actions and dates.

The table below presents the loan portfolio with recognised impairment managed by the Bank's organisational units responsible for loan restructuring.

Gross exposure in '000 PLN

	31.12.2011	**31.12.2010**
Loans and advances to private individuals	290 840	193 744
Loans and advances to companies	466 818	446 112
Total	**757 658**	**639 856**

Bank execution titles

In 2011, the Bank issued 74 bank execution titles for the aggregated amount of PLN 97.69 million (based on the average NBP exchange rate of 31 December 2011), including:

- 72 bank execution titles for the aggregated amount of PLN 87.00 million,
- 1 bank execution title for USD 0.002 million (PLN 0.01 million),
- 1 bank execution title for CHF 2.94 million (PLN 10.68 million).

Additionally, in 2011 the Bank issued 16,026 bank execution titles for retail and small business receivables for the aggregated amount of PLN 222.0 million (based on the exchange rate of 31 December 2011).

(2F) DEBT AND EQUITY SECURITIES

The table below presents the structure of securities in the Bank's portfolio as at 31 December 2011.

Gross exposure in '000 PLN

Issued by	**Trading debt securities**	**Investment debt securities**	**Shares and fund units**	**Total**
State Treasury	316 250	1 927 780	24	**2 244 054**
Central Bank	0	1 099 887	0	**1 099 887**
Other	0	104 840	334 154	**438 994**
- listed	0	0	0	**0**
- not listed	0	104 840	334 154	**438 994**
Total	**316 250**	**3 132 507**	**334 178**	**3 782 935**

The table below presents the structure of securities in the Bank's portfolio as at 31 December 2010.

Gross exposure in '000 PLN

Issued by	**Trading debt securities**	**Investment debt securities**	**Shares and fund units**	**Total**
State Treasury	980 360	3 355 513	24	**4 335 897**
Central Bank	0	999 708	0	**999 708**
Other	0	141 743	343 401	**485 144**
- listed	0	8 342	9 812	**18 154**
- not listed	0	133 401	333 589	**466 990**
Total	**980 360**	**4 496 964**	**343 425**	**5 820 749**

(2G) COLLATERAL TRANSFERRED TO THE BANK

In 2011 there were no major seizures by the Bank or sale of fixed assets constituting loan collateral. The above situation was caused by the implementation of other more cost-effective paths of satisfying oneself from transfers of title (more effective in terms of time and money with the limitation of costs), i.e. leading to the sale of the object of collateral under the Bank's supervision and with the allocation of part of the proceeds for repayment. A variety of such action is concluding agreements with official receivers on the basis of which the receiver for an agreed fee secures and stores objects of collateral and in agreement with the Bank puts them up for sale and actually sells them (as part of selling organized parts of the debtor's whole enterprise).

As a result of the above the implemented debt-collection procedure is not recorded on the so-called Fixed Assets for Sale.

(2H) POLICY FOR WRITING OFF RECEIVABLES

Credit exposures, with respect to which the Bank no longer expects any cash flows to be recovered and for which impairment provisions (or fair value adjustments in case of receivables originated from derivatives) have been created fully covering the outstanding debt are written-off the balance sheet against said provisions and transferred to off-balance. This operation does not cause the debt to be cancelled and the restructuring and recovery actions are not interrupted.

In most of cases the Bank writes off receivables against impairment provisions when said receivables are found to be unrecoverable i.e. among other things:

- ineffective execution proceedings;
- death of a debtor;
- confirmation that there are no chances to satisfy claims from the estate in bankruptcy;
- exhaustion of all opportunities to carry out execution against main debtor and other obligors (e.g. collateral providers).

(2I) CONCENTRATION OF RISKS OF FINANCIAL ASSETS WITH EXPOSURE TO CREDIT RISK

Industry sectors

The table below presents the Bank's total credit exposure broken down into components, according to category of customers.

31.12.2011	Financial intermediation	Industry and constructions	Wholesale and retail trade	Transport and communication	Public sector	Mortgage loans	Consumer loans*	Other sectors	Total
Loans and advances to banks	2 660 366	0	0	0	0	0	0	0	**2 660 366**
Loans and advances to customers	461 647	3 640 541	2 018 294	766 101	833 111	28 410 931	3 246 262	1 533 771	**40 910 658**
Trading securities	0	0	0	0	316 250	0	0	0	**316 250**
Derivatives and adjustment from fair value hedge	513 012	17 029	2 324	250	0	0	0	10 800	**543 415**
Investment securities	158 345	160 539	8 200	29	3 132 531	0	0	7 066	**3 466 709**
Financial assets valued at fair value	0	0	0	0	0	0	0	0	**0**
Receivables from securities bought with sell-back clause	2 209	0	0	0	0	0	0	0	**2 209**
As at 31 December 2011	**3 795 579**	**3 818 109**	**2 028 818**	**766 380**	**4 281 892**	**28 410 931**	**3 246 262**	**1 551 637**	**47 899 607**

31.12.2010	Financial intermediation	Industry and constructions	Wholesale and retail trade	Transport and communication	Public sector	Mortgage loans	Consumer loans*	Other sectors	Total
Loans and advances to banks	1 485 797	0	0	0	0	0	0	0	**1 485 797**
Loans and advances to customers	90 554	3 060 635	1 852 326	849 980	676 344	24 991 572	3 436 239	1 749 108	**36 706 758**
Trading securities	0	0	0	0	980 360	0	0	0	**980 360**
Derivatives and adjustment from fair value hedge	483 934	42 759	1 529	0	0	0	0	1 192	**529 414**
Investment securities	175 185	160 539	8 200	26	4 455 787	0	0	40 655	**4 840 392**
Financial assets valued at fair value	0	0	0	0	0	0	0	0	**0**
Receivables from securities bought with sell-back clause	55 085	0	0	0	0	0	0	0	**55 085**
As at 31 December 2010	**2 290 555**	**3 263 933**	**1 862 055**	**850 006**	**6 112 491**	**24 991 572**	**3 436 239**	**1 790 955**	**44 597 806**

* including: credit cards, cash loans, car loans, current accounts overdrafts and loans for leveraged shares acquisition

(3) MARKET RISK

Market risk encompasses current and prospective impact on earnings or capital, arising from changes in the value of the Bank's portfolio due to adverse movement in interest rates, foreign exchange rates or prices of bonds, equities or commodities.

Market-risk evaluation measures

The main measure used by the Bank to evaluate market risks is the parametric VaR (Value at Risk) model – an expected loss that may arise on the portfolio over a specified period of time (holding period) and with specified probability (confidence level) from an adverse market movement.

Calculation of the VaR in the Bank is carried out on the basis of the analytical approximation defined in the methodology developed by the RiskMetrics company. It is calculated considering the holding period of 10 working days and a 99% confidence level (one tail). Calculating the volatility associated with each risk vertex the model gives greater weighting to historical market conditions seen in the more recent days, thus ensuring a more correct match with the current market conditions.
The value at risk is determined daily, both on an individual basis for each of the areas responsible for risk taking and risk management, and also in consolidated terms considering the effect of the diversification that exists between the particular portfolios.

To ensure that the VaR model adopted is appropriate for the evaluation of the risks involved in the open positions, a back-testing process has been instituted and is carried out daily.
Back testing is a standard technique used to evaluate the quality of the risk measurement model, performed according to the following rules:

- In the existing system an ex-post comparison is made of the risk measure generated by the model with the verified daily changes in the portfolio value assuming static positions,

- The quality of the model is verified using a three-zone statistical approach based on the number of excesses (an excess is said to happen whenever the difference between the absolute daily change value and the daily VaR measure is positive):

  - the green zone (less or equal 8 excesses) corresponds to a result which does not suggest any problem in the model,

  - the yellow zone (9 to 14 excesses) raises some questions about the model but the conclusion is not definitive: in this case a multiplication factor is used, to put the level of confidence of the risk measure back to 99%,

  - the red zone (more or equal to 15 excesses) indicates a problem in the risk model.

All reported excesses are documented. This includes an explanation of their causes and their incorporation in one of the three classes of excess explanation: adequacy of the model, insufficient model accuracy or unanticipated market movements.

In order to monitor and limit the positions in instruments, for which it is not possible to properly assess market risk with the use of the VaR model (non-linear instruments), other risk ratios were defined, such as Gamma, Vega and Theta.

Parallel to the VaR calculation the trading portfolios are subject to a set of stress scenarios, in order to:

- Estimate the potential economic loss resulting from extreme variations in market risk factors,
- Identify the market risk movements, possibly not captured by VaR, to which the portfolios are more sensitive,
- Identify the actions that can be taken to reduce the impact of extreme variations in the risk factors.

The following types of market scenarios are being applied in the stress test analysis: i) Parallel shifts of the yield curves; ii) More steep or flat shape of the yield curves; iii) Variations of interest rate volatility; iv) Variations of the exchange rates; v) Variations of currency and currency interest rate swaps spreads; vi) Historical adverse scenarios.

The VaR calculation process is carried out using Web-based software, which allows to have on-line access to the risk exposures in all market risk management areas.

VaR is used as a measure in assessing the risks incurred by the positions both in Trading and Banking Book. The market risk exposure (VaR) together with the limit utilization is reported daily to all areas responsible for management and control of market risk in the Bank. In December 2011, new market risk limits were adjusted to more recent Bank’s Own Funds and EUR/PLN fx rate.VaR ratios presented in the table below reflect joint exposures to market risk in the Bank, that is Trading Book and the Banking Book. The average total risk exposure in 2011 was equal to approx. PLN 15.83 million. The diversification effect applies to the Generic Risk and reflects correlation between its constituents.

The figures include also the exposures to market risk generated in subordinated companies, as the Bank takes over the risk of subordinated companies and manages it at central level.

VaR measures for market risk ('000 PLN)

VaR measures for market risk	VaR (from 31st December 2010 to 31st December 2011)				
	End of 2011	Average	Maximum	Minimum	**End of 2010**
Total risk	**19 925**	**15 826**	**25 980**	**8 495**	**11 979**
Generic risk	16 912	13 023	23 106	5 752	9 247
Interest Rate VaR	16 871	13 041	23 774	5 764	9 264
FX Risk	94	515	6 847	9	152
Diversification Effect	0	0	0	0	0
Non-linear risk	0%				2%
Commodities risk	0	7	57	0	22
Specific risk	0	0	0	0	0
Total risk	2 790	2 796	2 982	2 680	2 710

The corresponding exposures as of 2010 respectively amounted to:

VaR measures for market risk	VaR (from 31st December 2009 to 31st December 2010)				
	End of 2010	Average	Maximum	Minimum	**End of 2009**
Total risk	**11 979**	**13 843**	**20 671**	**6 999**	**17 497**
Generic risk	9 247	12 712	19 759	6 106	16 545
Interest Rate VaR	9 264	12 682	21 308	6 309	16 377
FX Risk	152	785	7 903	20	721
Diversification Effect	0	0	0	0	0
Non-linear risk	2%				3%
Commodities risk	22	12	34	0	0
Specific risk	0	0	0	0	0
Total risk	2 710	1 118	2 710	561	951

The market risk exposure divided into Trading Book and Banking Book together with risk type division is presented in the table below ('000 PLN):

Banking Book:

VaR measures for market risk	VaR (from 31st December 2010 to 31st December 2011)				
	End of 2011	Average	Maximum	Minimum	**End of 2010**
Total risk	**18 464**	**12 539**	**19 275**	**7 378**	**11 097**
Generic risk	15 694	9 763	16 385	4 672	8 389
Interest Rate VaR	15 665	9 760	16 385	4 672	8 389
FX Risk	58	10	88	0	0
Diversification Effect	0%				0%

VaR measures for market risk	VaR (from 31st December 2009 to 31st December 2010)				
	End of 2010	Average	Maximum	Minimum	**End of 2009**
Total risk	**11 097**	**10 602**	**19 242**	**5 108**	**12 936**
Generic risk	8 389	9 484	18 433	4 194	11 987
Interest Rate VaR	8 389	9 484	18 433	4 194	11 987
FX Risk	0	0	79	0	0
Diversification Effect	0%				0%

Trading Book:

VaR measures for market risk	VaR (from 31st December 2010 to 31st December 2011)				
	End of 2011	Average	Maximum	Minimum	**End of 2010**
Total risk	**2 371**	**5 901**	**11 200**	**1 551**	**4 258**
Generic risk	2 127	5 874	11 190	1 536	4 235
Interest Rate VaR	2 121	5 833	11 818	1 540	4 248
FX Risk	36	510	6 847	9	152
Diversification Effect	1%				4%

VaR measures for market risk	VaR (from 31st December 2009 to 31st December 2010)				
	End of 2010	Average	Maximum	Minimum	**End of 2009**
Total risk	**4 258**	**6 667**	**10 435**	**2 063**	**6 537**
Generic risk	4 235	6 654	10 431	2 044	6 534
Interest Rate VaR	4 248	6 525	11 238	2 019	6 391
FX Risk	152	784	7 903	20	721
Diversification Effect	4%				9%

In 2011, there were no total market risk limit excesses in any of the risk management area. All excesses of sublimits were reported and are documented. This includes an explanation of their causes and ratification of the excess at the proper competence level.

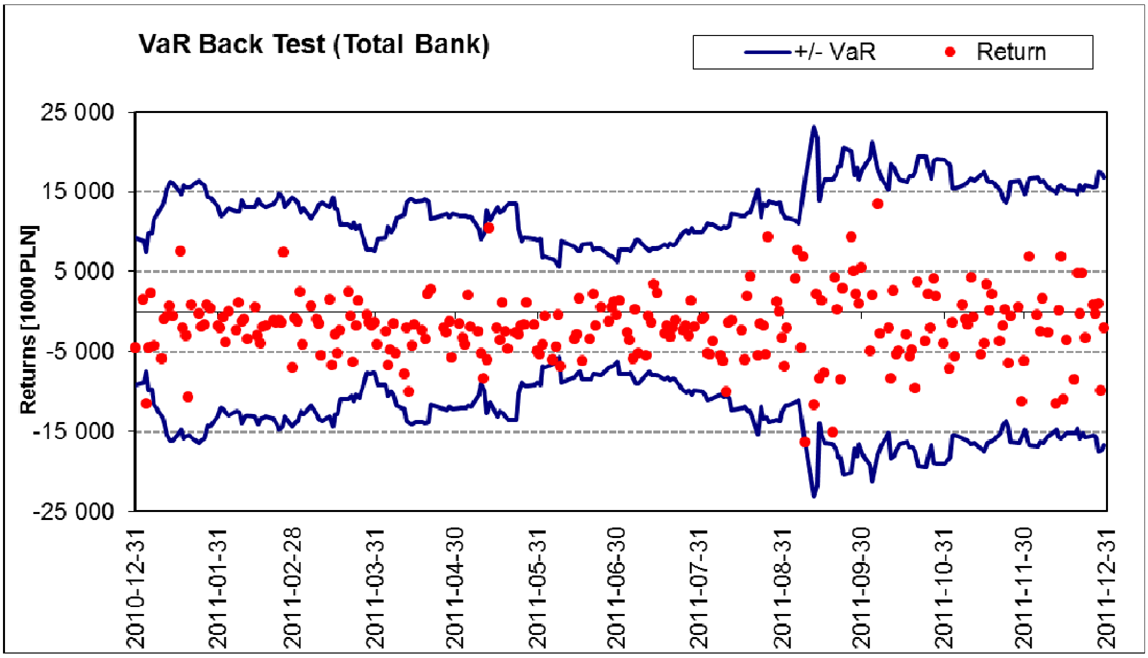
Open positions mostly included interest-rate instruments and FX risk instruments. The FX Risk covers all the foreign exchange exposures of the Bank, as well as open positions allowed only in the Trading Portfolios.

Evolution of the total FX open position in Trading Portfolio (PLN Thousand):

Total position	**Period Average**	**Period Minimum**	**Period Maximum**	**The Last Day of Period**
2011	16 208	1 635	61 390	3 112
2010	26 181	5 837	119 526	16 162

The back testing proves that the applied VaR model is appropriate.

Market risk - VaR Back Testing



VaR assessment is supplemented by monitoring the sensitivity to the above-mentioned scenarios of portfolios carrying market risk (only worst case results are being disclosed).
In keeping with principles adopted by the Bank the indicative limits for stress test results are twice as high as limits for daily management of market risk.

In case of the Banking Book, for the purpose of interest rate risk a sensitivity of non-trading portfolios analysis is carried out, while to mitigate it hedging strategies are applied. The Bank is performing monthly risk transfer from Commercial Risk Area of the Banking Book to the Areas, where the risk is being managed on the operational level (i.e. respectively ALM and Funding). Those transaction have a macro hedging character.

Bank performs hedging strategies against interest rate risk connected with the fixed rate loan portfolio, in particular with the portfolio of consumer loans and leasing portfolio.

Cash loans portfolio was partially hedged with amortizing IRS transactions and incorporated into the hedge accounting. In the part not hedged by dedicated transactions, the portfolio is economically hedged with fixed rate deposits. The leasing fixed-rate portfolio is fully hedged by IRS transactions. In connection with the implementation of the risk transfer procedure, the Bank run the process of calculation the hedged portfolios' market value changes in a series of additional stress tests carried out every month. Stress tests scenarios assumes the change of shape and location of yield curves and aims at verification of the hedge effectiveness.

As at end of December 2011 the value of BPV for the Banking Book was approx. PLN 5 million.

Sensitivity of the Banking Book to changes of interest rates was as follows (in thousand PLN):

BPV Banking Book	Period Average	Period Minimum	Period Maximum	The Last Day of Period
2011	5 676	(16 698)	24 422	5 332
2010	15 021	(14 005)	37 027	22 618

(4) LIQUIDITY RISK

The objective of liquidity risk management is to ensure and maintain the Bank's ability to meet both current, as well as future funding requirements.
Liquidity risk reflects the possibility of incurring significant losses as a result of deteriorated financing conditions (financing risk) and/or of the sale of assets for less than their market value (market liquidity risk) to meet the needs for funding arising from the Bank's obligations.

There were no exposures to liquidity risk at a subsidiary level, because the Bank assures the risk from its subsidiaries and manages it centrally.

In 2011 the Bank prolonged EUR 200 million stand-by facility with Millennium BCP – the parent company. Moreover, during 2011 the Bank issued additional structured bonds (about PLN 203 million) increasing the level of long-term stable sources of funding.

The large, diversified and stable funding from retail and corporate sectors remains the main source of financing. In 2011 the deposit base grew to the level of approx. PLN 37 billion due to an attractive offer and effective marketing campaigns.

Concentration of the deposit base, based on the share of top 5 and 20 depositors, at the end of 2011 remained almost unchanged compared to 2010, amounting respectively to 4,5% and 9.8% (in December 2010 it was respectively 4.4% and 11.1%).

The Bank manages FX liquidity through the use of FX-denominated bilateral loans as well as subordinated debt, Cross Currency Swap and FX Swap transactions. The swaps portfolio is diversified in term of counterparties and maturity dates. For the majority of counterparties the Bank has signed a Credit Support Annex to the master agreements. As a result, in case of unfavourable changes of FX rates (PLN depreciation), the Bank is obliged to place deposits as a collateral with counterparties in order to secure the settlement of derivative instruments in the future, and in case of favourable FX rates changes (PLN appreciation) receives deposits as a collateral from counterparty.
The Bank assesses the possibility of unfavourable changes of FX rates (especially CHF and EUR, which causes increase of liquidity needs) analyses liquidity risk and reflects this risk in the liquidity plans.

Liquidity risk evaluation measures

The estimation of the Bank's liquidity risk is carried out both with the use of the ratios defined by the supervisory authorities and own indicators, for which exposure limits were also established. The evolution of the Bank's liquidity position in short-term horizons (up to 3 months) is tested daily on the basis of two internally defined indicators: immediate liquidity and quarterly liquidity. Both such indicators measure the maximum borrowing requirement, which could arise on a particular day, taking into consideration the cash-flow projections for spot date and period of 3 months, respectively.
The calculation of these indicators involves adding to the day's liquidity position the estimated future cash flows for each day from the respective time horizon (spot date or 3 months) for the transactions concluded by markets areas. The amount of assets from the Bank's highly liquid securities portfolio is added, which results in the determination of the accumulated liquidity gap for each day of the period under review.
These figures are reported daily to the areas responsible for the management of the liquidity position and are compared with the exposure limits in force. During the year, these indicators were above minimum limit.

Current Liquidity indicators

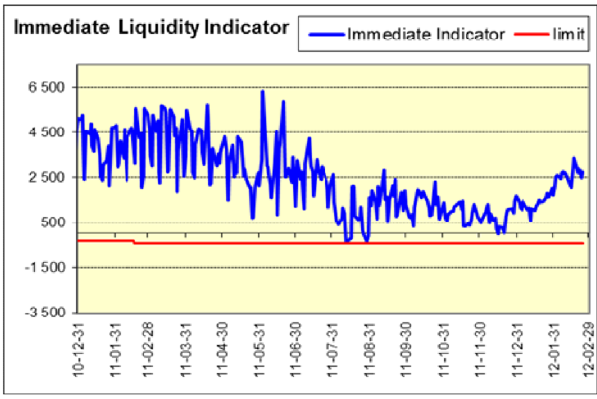
PLN million

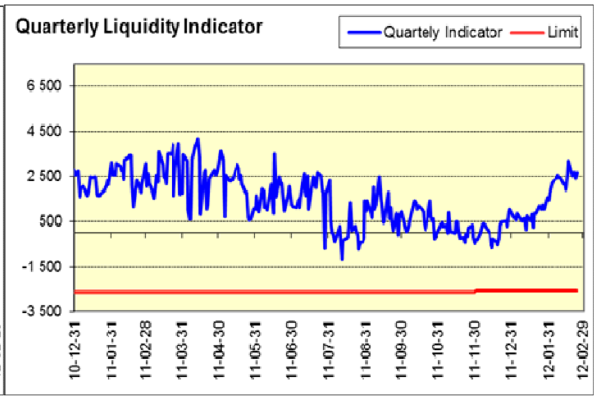
31.12.2011

	Highly liquid assets	Immediate liquidity ratio	Quarterly liquidity ratio	Liquid assets for coverage of sources of financing volatility
Exposure	933	1 677	1 041	3 698
Minimum limit		(636)	(2 544)	2 000

31.12.2010

	Highly liquid assets	Immediate liquidity ratio	Quarterly liquidity ratio	Liquid assets for coverage of sources of financing volatility
Exposure	4 231	5 143	2 547	5 007
Minimum limit		(657)	(2 623)	2 000





The Bank monitors liquidity on the basis of internal liquidity measures, taking into account in particular the impact of FX rates on the liquidity situation. The PLN depreciation in the second half of 2011 year caused a temporary decrease in internal liquidity measures.

Additionally the Bank employs an internal structural liquidity analysis based on cumulative liquidity gaps calculated on a real basis (i.e. assuming the probability of cash flow occurrence). The safe level adopted by the Bank for the ratio of liquidity shortfall for each time bucket below 5 years corresponds to 25% of Total Assets.

In 2011 liquidity gaps in both normal and under stress scenarios were maintained at levels significantly above the safe limits.

The Bank has developed a liquidity risk management tool defining stress scenarios under which liquidity gaps are calculated on a real basis assuming a conservative approach to the assessment of probability of cash flow occurrence (among others taking into account a reduction of deposits, delays of loans repayment, deteriorated liquidity of the secondary securities market, the highest cost of funding - the assumption of the worst observed margins on deposits in the Bank, parallel shift of the yield curve and PLN depreciation).

In 2010 the methodology has been improved in the scope of stress test scenarios and deposit base stability assessment, which is being performed daily.

		31.12.2011				
Adjusted Liquidity Gap (m PLN)	**up to 6M**	**6M to 12M**	**1Y to 2Y**	**2Y to 3Y**	**3Y to 5Y**	**over 5Y**
Adjusted balance assets	12 350	2 795	3 728	3 915	6 456	35 172
Adjusted balance liabilities	7 403	876	569	217	1 462	43 988
Balance-Sheet Gap	4 947	1 919	3 159	3 698	4 994	(8 816)
Cumulative Balance-Sheet Gap	4 947	6 867	10 026	13 724	18 718	9 901
Adjusted off-balance assets	385	307	482	346	441	779
Adjusted off-balance liabilities	(1 131)	(327)	(508)	(339)	(442)	(824)
Off-Balance Sheet Gap	(746)	(19)	(26)	8	0	(45)
Total Gap	4 202	1 900	3 134	3 706	4 993	(8 861)
Total Cumulative Gap	4 202	6 102	9 235	12 941	17 934	9 073

31.12.2010						
Adjusted Liquidity Gap (m PLN)	**up to 6M**	**6M to 12M**	**1Y to 2Y**	**2Y to 3Y**	**3Y to 5Y**	**over 5Y**
Adjusted balance assets	12 827	2 685	3 812	3 890	5 594	29 627
Adjusted balance liabilities	7 123	1 166	672	682	2 380	42 034
Balance-Sheet Gap	5 703	1 519	3 139	3 208	3 214	(12 407)
Cumulative Balance-Sheet Gap	5 703	7 222	10 361	13 569	16 784	4 377
Adjusted off-balance assets	278	295	586	435	529	766
Adjusted off-balance liabilities	(1 170)	(391)	(608)	(445)	(504)	(997)
Off-Balance Sheet Gap	(892)	(96)	(22)	(10)	25	(230)
Total Gap	4 811	1 422	3 118	3 198	3 240	(12 637)
Total Cumulative Gap	4 811	6 233	9 351	12 549	15 789	3 151

Stress tests are performed at least quarterly, to determine the Bank's liquidity-risk profile, to ensure that the Bank is in a position to fulfil its obligations in the event of a liquidity crisis and to update the liquidity contingency plan and management decisions.

The results of the stress test analysis demonstrated that the liquidity indicators will be maintained above the established limits.

The Bank has emergency procedures for situations of increased liquidity risk – the Liquidity Contingency Plan (contingency plan in case the Bank's financial liquidity deteriorates) is updated on a quarterly basis. The Liquidity Contingency Plan establishes the concepts, priorities, responsibilities and specific measures to be taken in the event of a liquidity crisis.

For the purpose of supervisory quantitative liquidity measures management, the Bank utilizes a dedicated model, which is based on the concept of minimum buffers and allows performing simulation analyses. In order to better manage the supervisory measures the Bank prolonged in February 2011 a stand-by line from Millennium BCP of 200 million euros and decided about partial direct funding on the market of Millennium Leasing by issuing own bonds.

Although due to strong PLN depreciation in the second half of 2011, the supervisory liquidity measures decreased, the immediate actions taken in order to improve the buffers prevented them from breaching the supervisory limits both short- and long-term, even at the historically highest levels of CHF/PLN.

(5) OPERATING RISK

In the year 2011 there could be observed a continuous use of standards implemented for the purpose of efficient management of operational risk, which are in line with the best practice of international financial institutions.

The adopted risk management structure describes the various management levels and scopes of their duties and responsibilities. Owners of defined business and support processes play a key role in the day-to-day operation of the Group. Process owner, basing on thorough knowledge about the process, accurately identifies and mitigates recognized risks. Every decision regarding optimising operational risk is preceded by cost-benefit analysis.

A higher risk management level is the Processes and Operational Risk Committee, which focuses on threats identified in more than one process. All and any activities concerning operational risk are coordinated and supervised by the Risk Committee, the Management Board and the Supervisory Board.

In keeping with the adopted model, risk management is a process of continuous improvement as regards identification, assessment, monitoring, mitigating and reporting by:

- Gathering operational risk events,
- Self-assessment of operational risk in individual processes,
- Analysis and monitoring of risk indicators.

The Group gathers operational risk events in an IT tool, which is being continuously improved. The tool supports management of operational risk. Such events are being afterwards analysed in what concerns the source of event and possibility of mitigating the effects and apply appropriate preventive actions. In the IT tool, events are being ascribed to a certain risk category and proper process type, which is later used as a part of reporting and risk self-assessment validation. The internal database of risk events additionally meets qualitative and quantitative requirements for following the advanced approach in calculating capital requirements on account of operational risk.

The risk self-assessment was being realised together with the processes review. It relied on assessment of adopted solutions' effectiveness in fulfilling expectations of Clients and business partners in the scope of both, services quality and costs optimisation.

Approved operational risk and control methodology allowed assessment of risk level in a given process, taking into account existing controls and basing on accepted scenarios. Mitigation actions were proposed implemented and are monitored for purposes of assessment of risk levels above the accepted tolerance threshold.

During the risk and control self-assessment exercise an analysis of performance indicators was made, including risk indicators defined for each process. Key persons - responsible for creating and implementation activities in given processes - have defined and adjusted the indicators thus to make them the best forecasts of future risks. Ongoing monitoring of indicators serves the purpose of increasing effectiveness and productivity of processes as well as effective control of risk on the level of individual actions within processes.

XVII. LIQUIDITY GAP BY MATURITY

31 December 2011 — **PLN '000**

ASSETS	below 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	above 5 years	Other assets	TOTAL
Cash, balances with the Central Bank	2 017 550	0	0	0	0		**2 017 550**
Loans and advances to banks	2 247 222	0	10 992	402 152	0		**2 660 366**
Trading debt securities	46 723	0	156 812	103 939	8 776		**316 250**
Derivatives and adjustment from fair value hedge	34 514	72 790	99 217	161 573	44 685		**412 779**
Hedging derivatives	0	32 536	28 899	46 094	23 107		**130 636**
Loans and advances to customers	2 882 979	774 329	2 677 458	9 540 665	23 956 625		**39 832 055**
Debt securities available for sale	1 118 738	0	884 046	1 084 371	45 351		**3 132 507**
Receivables from securities bought with sell-back clause	2 209	0	0	0	0		**2 209**
Shares and interests						312 381	**312 381**
Other non-financial assets						796 544	**796 544**
TOTAL	**8 349 935**	**879 655**	**3 857 423**	**11 338 795**	**24 078 544**	**1 108 925**	**49 613 277**

LIABILITIES	below 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	above 5 years	Other liabilities	TOTAL
Deposits from banks	309 298	617	42	1 074 615	137 835		**1 522 406**
Deposits from customers	21 807 503	10 406 542	4 444 112	877 495	14 150		**37 549 802**
Trading derivatives and liabilities from short sale of securities	38 986	244 902	94 630	154 119	41 781		**574 418**
Hedging derivatives	178 083	207 110	482 732	631 004	799 170		**2 298 099**
Liabilities from securities sold with buy-back clause	1 137 517	484 818	0	0	0		**1 622 335**
Debt securities, by final legal maturity	7 973	8 187	56 643	321 972	0		**394 775**
Subordinated debt	0	0	708	0	662 520		**663 228**
Other non-financial liabilities						728 018	**728 018**
Equity						4 260 196	**4 260 196**
TOTAL	**23 479 359**	**11 352 177**	**5 078 867**	**3 059 204**	**1 655 456**	**4 988 214**	**49 613 277**

31 December 2011							PLN '000
OFF-BALANCE SHEET LIABILITIES	**below 1 month**	**from 1 month to 3 months**	**from 3 months to 1 year**	**from 1 year to 5 years**	**above 5 years**	**Other liabilities**	**TOTAL**
Liabilities from opened credit lines	5 758 206						**5 758 206**
Liabilities from sureties and guarantees	1 289 768						**1 289 768**
Balance sheet Gap	(15 129 424)	(10 472 522)	(1 221 444)	8 279 591	22 423 088	(3 879 289)	0
Total Gap	(22 177 398)	(10 472 522)	(1 221 444)	8 279 591	22 423 088	(3 879 289)	(7 047 974)

In accordance with the statistical analysis of the open credit facilities and liabilities under sureties and guarantees listed in the table above their actual levels of utilisation are 10% and 5% of the presented nominal, respectively.

31 December 2010 PLN '000

ASSETS	below 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	above 5 years	Other assets	TOTAL
Cash, balances with the Central Bank	2 050 515	0	0	0	0		**2 050 515**
Loans and advances to banks	1 114 633	0	0	371 164	0		**1 485 797**
Trading debt securities	0	63 587	569 631	321 597	25 545		**980 360**
Derivatives and adjustment from fair value hedge	17 847	184 816	145 229	67 146	34 145		**449 183**
Hedging derivatives	0	0	0	78 982	1 249		**80 231**
Loans and advances to customers	2 916 371	690 207	2 740 661	8 211 238	21 119 520		**35 677 997**
Debt securities available for sale	1 014 649	17 922	935 935	2 480 078	48 380		**4 496 964**
Receivables from securities bought with sell-back clause	55 085	0	0	0	0		**55 085**
Shares and interests						322 988	**322 988**
Other non-financial assets						450 945	**450 945**
TOTAL	**7 169 101**	**956 532**	**4 391 456**	**11 530 205**	**21 228 839**	**773 933**	**46 050 065**

LIABILITIES	below 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	above 5 years	Other liabilities	TOTAL
Deposits from banks	195 300	538	792 294	905 690	190 634		**2 084 456**
Deposits from customers	22 170 057	6 664 765	5 622 177	1 068 675	165		**35 525 839**
Trading derivatives and liabilities from short sale of securities	97 164	370 767	94 022	125 229	117 784		**804 965**
Hedging derivatives	76 250	132 966	307 353	446 795	351 958		**1 315 321**
Liabilities from securities sold with buy-back clause	670 691	0	3 503	0	0		**674 194**
Debt securities, by final legal maturity	0	13 804	56 799	313 934	0		**384 537**
Subordinated debt	0	0	317 943	0	594 045		**911 988**
Other non-financial liabilities						532 720	**532 720**
Equity						3 816 045	**3 816 045**
TOTAL	**23 209 462**	**7 182 840**	**7 194 090**	**2 860 322**	**1 254 585**	**4 348 765**	**46 050 065**

31 December 2010							PLN '000
OFF-BALANCE SHEET LIABILITIES	**below 1 month**	**from 1 month to 3 months**	**from 3 months to 1 year**	**from 1 year to 5 years**	**above 5 years**	**Other liabilities**	**TOTAL**
Liabilities from opened credit lines	4 935 754						**4 935 754**
Liabilities from sureties and guarantees	1 239 652						**1 239 652**
Balance sheet Gap	(16 040 361)	(6 226 308)	(2 802 635)	8 669 883	19 974 253	(3 574 833)	0
Total Gap	(22 215 767)	(6 226 308)	(2 802 635)	8 669 883	19 974 253	(3 574 833)	(6 175 406)

XVIII. CONDITIONAL LIABILITIES AND ASSETS

Total value of claims in the biggest court proceedings in which the Bank was either as a claimant or defendant, seen before courts, arbitration authorities of appropriate jurisdiction, amounted as at 31 December 2011 to PLN 336 million. Total value of claims in the biggest court proceedings, in which the bank appeared as defendant was PLN 256 million, and the total value of claims in the biggest court proceedings, in which the Bank appeared as plaintiff was PLN 80 million.
Descriptions of the important, accordingly opinion of the issuer, ongoing lawsuits involving the Group's entities, broken down into three categories are following:

Proceedings connected with derivatives
As of 31 December 2011 the Bank was party to 43 lawsuits connected with derivatives, where in 35 cases the Bank was the defendant, while in 8 as the plaintiff. Accordingly to the Bank's best knowledge the total disputed value in these lawsuits was PLN 314 million. The highest unit value of the dispute was PLN 71 million.

The largest lawsuits connected with derivatives in which Group companies are defendants:

1. **Plaintiff:** legal person
   Value of the object of the dispute: PLN 71,065,495
   Object: Claim for return of amounts due on account of settlement of FX options.
   Case status: On 10 January 2011 the lawsuit was formally received by an attorney of the Bank, who in cooperation with the Bank prepared and delivered on 24 January 2011 to the court a reply to the lawsuit. Currently procedural letters are being exchanged. The first hearing on November 23, 2011, was of the preparation nature. The Court obliged representatives of parties to make some actions to be completed within 14 days, under the threat of suspension of the proceedings. Dates for further hearings the Court appointed for 16.03.2012, and 30.03.2012.
   Expectations: the Bank's attorney has a positive view of the chances of the Bank getting a positive ruling.

2. **Plaintiff:** legal person
   Value of the object of the dispute: PLN 31,049,160
   Object: The plaintiff claims that the disputed transaction was not concluded effectively owing to failure to agree on essentials components. Additionally the plaintiff claims that he has evaded the legal effects of his statements of will, which had been made in error.
   Case status: The first hearing was held on 26 October 2010. During this hearing witnesses were questioned. Other witnesses were heard during hearings, which took place April 12 and 8 November 2011, the Next hearing has been fixed at 28 February 2012.
   Expectations: the Bank's attorney has a positive view of the chances of the Bank getting a positive ruling.

The other largest lawsuits in which Group companies are defendants except Proceedings with participation of the Chairman of UOKiK:

1. **Plaintiff:** natural person

   Value of the subject matter of the dispute: PLN 2,263,894

   Object: Claim aimed at depriving the feasibility of the Executive title

   Case status: In the judgment of the Court of Appeal, case returned to the Court of first instance, in order to judge whether termination of the agreement was effective, the next hearing is scheduled for 2 March 2012.

   Prospects: the Bank's attorney assesses probability of beneficial settlement for the Bank at about 50%

Proceedings with participation of the Chairman of UOKiK:

Proceedings before the Chairman of UOKiK concerning provisions of mortgage loans

The Bank is party of the case before the Chairman of UOKiK concerning provisions of mortgage loan agreements as regards the method of calculation of insurance contribution, used by the Bank.
In such proceedings, the Chairmen calls for recognition of the illegal provisions of a standard agreement concerning the rules for setting the exchange rate at which the loan is repaid, criteria allowing changes in the price list of fees and rules for amendments to the regulations; the conditions under which the Bank may demand additional collateral, rules for the reimbursement of insurance premium for the period during which there has been no mortgage registration (the so-called bridge insurance).
On 14 December 2010, there was the sentence of the Court of First Instance recognizing all the clauses used by the Bank to be illegal therefore on 9 February 2011 the Bank's attorney appealed against the verdict. The answer for aforementioned appeal was delivered to Bank's attorney on 7 April 2011, the trial was held on 7 October 2011, the sentencing was postponed until 21 October 2011. Eventually the Court of Appeal held in virtue the appealed judgment and the case is closed.

Proceedings concerning determination of interchange fees in connection with transactions done with Visa and Europay/Eurocard/Mastercard cards

The Bank is a party in proceedings instituted by the Chairman of UOKiK against operators of the Visa and Europay systems as well as banks – issuers of Visa and Europay/Eurocard/Mastercard cards. The proceedings concern practices restricting competition on the card payments market in Poland, whereby interchange fees were said to be agreed jointly for transactions done with Visa and

Europay/Eurocard/Mastercard cards and also access was restricted for entrepreneurs who did not belong to the association of card issuers against whom the proceedings were instituted.

On 29 December 2006 the Chairman of UOKiK deemed the practices consisting in jointly agreeing on interchange fees as restricting competition and ordered desisting from their use, at the same time imposing i.a. on the Bank a cash penalty of PLN 12,158,370 On 19 January 2007 the Bank appealed against the decision of the Chairman of UOKiK to SOKiK. On 25 august 2008 SOKiK gave a ruling, in which it decided to suspend enforcement of the appealed decision in the item concerning the order to desist from jointly agreeing on the interchange fees.

In the ruling of 12 November 2008 SOKiK changed the appealed decision so that it did not find use of practice restricting competition, consisting in participation by banks participants in the proceedings (including the Bank) in an agreement restricting competition on the market of outsourcing of services connected with payment of consumers' liabilities to merchants on account of payments for goods and services purchased by the consumers with use of cards in Poland, by jointly agreeing on interchange fees charged on transactions done with Visa and MasterCard cards in Poland. On 12 January 2009 the Chairman of UOKiK appealed against this ruling. Response to the appeal has been lodged by the Bank on 13 February 2009. On 22 April 2010, the appeals hearing was held, after which the Court of Appeal overturned the verdict from November 2008 entirely, sending the case back to SOKiK. Next trial date has been appointed at 9 February 2012. At the meeting held on 9 February 2012, the Court took into account the request of the representative of the Bank and set the date of the next hearing on April 24, 2012.

OFF-BALANCE ITEMS

	31.12.2011	31.12.2010
Off-balance conditional commitments granted and received	**10 159 265**	**9 399 510**
1. Commitments granted:	8 817 765	8 126 650
a) financial	6 691 362	6 242 641
b) guarantee	2 126 403	1 884 009
2. Commitments received:	1 341 499	1 272 860
a) financial	883 360	794 880
b) guarantee	458 139	477 980

The granted conditional commitments presented in the table above comprise commitments to grant credit (such as: unutilised credit card limits, unutilised current account overdraft facilities, unutilised tranches of investment loans) and issued guarantees and Letters of Credit (securing performance by customers of the Group of their obligations to third parties). The value of above-presented guarantee commitments presents the maximum value of a loss, which may be incurred by the Group, should the customers default on their obligations. The Group creates provisions for impaired irrevocable conditional commitments, reported in the "provisions" item under liabilities in the balance-sheet. The provision value is determined as the difference between the estimated amount of utilised conditional exposure and the present value of expected future cash flows under this credit exposure.

The breakdown by entity of all net guarantee liabilities, reported in non balance-sheet items is presented in the table below:

Customer – sector, amount in PLN million	31.12.2011	31.12.2010
- financial sector	123.6	155.4
- non-financial sector (companies)	1 976.3	1 704.4
- public sector	25.5	21.7
- private individuals	1.0	2.5
Total	**2 126.4**	**1 884.0**

The Bank as the dominant entity extended no guarantees, sureties or avals to remaining companies of the Capital Group, while it did grant them upon instructions from these companies to external entities. The value of the guarantees, sureties and avals granted by the bank upon instructions of companies comprising the Group is presented by the table below:

Subsidiary, **amount in PLN million**	31.12.2011	31.12.2010
Millennium Leasing Sp. z o.o.	54.0	55.1
Millennium Service Sp. z o.o.	18.1	17.9
TBM Sp. z o.o.	0.1	0.1
Total	**72.2**	**73.1**

Guarantees, sureties and avals granted to Clients

Commitments granted - guarantee, amounts in PLN million	31.12.2011	31.12.2010
Active guarantees, sureties and avals	1 289.8	1 239.7
Sureties for loans granted through EFRWP	2.8	4.5
Lines for guarantees and sureties	849.8	643.2
Total, gross	**2 142.4**	**1 887.4**
Impairment charges	(16.0)	(3.4)
Total, net	**2 126.4**	**1 884.0**

In the period from 01.01.2011 till 31.12.2011 the Bank granted 2,762 guarantees, sureties and avals totalling PLN 1,343,122 thousand.

The amount of such liabilities as of 31.12.2011 stood at PLN 1,289,768 thousand (2,823 items of active guarantees) which means an increase in their value by PLN 50,116 thousand i.e. by 4.04% compared to 31.12.2010. The value of aforementioned liabilities granted in PLN increased by PLN 41,222 thousand (+3,68%), respectively in foreign currency increased by PLN 8,894 thousand (+7,44%).

The structure of commitments under guarantees, sureties and avals divided into commitments granted in PLN and in FX is presented in the table below:

1. By currency	31.12.2011	31.12.2010
PLN	1 161 312	1 120 090
Other currencies	128 456	119 562
TOTAL	**1 289 768**	**1 239 652**

2. By type of commitment	31.12.2011		31.12.2010	
	Number	Amount in '000 PLN	Number	Amount in '000 PLN
Aval	1	1 050	2	1 073
Guarantee	2 811	1 269 368	2 554	1 212 734
Surety	3	9 086	4	11 162
Re-guarantee	8	10 264	32	14 683
TOTAL	**2 823**	**1 289 768**	**2 592**	**1 239 652**

3. By object of the commitment	31.12.2011			31.12.2010		
	Number	% share	Amount in '000 PLN	Number	% share	Amount in '000 PLN
good performance of contract	1 945	68.90%	811 316	1 759	67.86%	838 289
rent payment	300	10.63%	55 873	314	12.11%	54 737
punctual payment for goods or services	231	8.18%	154 621	214	8.26%	124 415
bid bond	223	7.90%	48 268	176	6.79%	70 354
other	56	1.98%	10 250	72	2.78%	34 123
advance return	49	1.74%	196 600	40	1.54%	66 130
customs	17	0.60%	11 665	14	0.54%	50 260
payment of bank loan	2	0.07%	1 175	3	0.12%	1 344
TOTAL:	**2 823**	**100.00%**	**1 289 768**	**2 592**	**100.00%**	**1 239 652**

XIX. OPERATING LEASE

The Bank has lease agreements for office space, which according to IAS 17 are posted under operating leasing. As a standard, the Bank usually makes agreements of lease of commercial property for a specified period of time: between 5 and 10 years. Majority of these is entered for 5 years with a clause providing the right of the lessee to extend the term of the lease for another 5 years upon presentation of a statement. The other agreements are made with no time limitation, and may be terminated with adequate notice, usually 3 to 6 months.

Total liabilities under the operating leasing are as follows (data in PLN thousands):

Balance as at:	31.12.2011	31.12.2010
to 1 year	40 148	64 989
above 1 year to 5 years	120 950	177 470
above 5 years	94 462	118 200
TOTAL	**255 560**	**360 660**

XX. ESSENTIAL EVENTS BETWEEN THE DATE, FOR WHICH THE FINANCIAL REPORT WAS PREPARED, AND ITS PUBLICATION DATE

Aforementioned events did not take place.

SIGNATURES:

Date	Name and surname	Position/Function	Signature
28.02.2012	Bogusław Kott	Chairman of the Management Board	....
28.02.2012	Joao Bras Jorge	Deputy Chairman of the Management Board	....
28.02.2012	Fernando Bicho	Member of the Management Board	....
28.02.2012	Julianna Boniuk-Gorzelańczyk	Member of the Management Board	....
28.02.2012	Maria Jose Campos	Member of the Management Board	....
28.02.2012	Andrzej Gliński	Member of the Management Board	....
28.02.2012	Wojciech Haase	Member of the Management Board	....
28.02.2012	Artur Klimczak	Member of the Management Board	....